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“Keeping Up” or “Keeping Afloat”? How American Households Accumulate Wealth

A dissertation submitted in partial satisfaction of the requirements for the degree
Doctor of Philosophy

in

Sociology

by

Jeffrey Dalton Lundy, II

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2012

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The dissertation of Jeffrey Dalton Lundy, II is approved, and it is acceptable for in quality and form for publication on microfilm and electronically:

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Co-Chair

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University of California, San Diego

2012

DEDICATION

To my family who supported me all these years, including Julia, Mom and Dad,
Ann & Keith, Pam & Richard, Lawrence & Friends, and most especially, Shannon.

EPIGRAPH

Writing is like the life of a glacier, one eternal grind.

John Muir

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FIELD OF STUDY

Major Field: Sociology

Economic Sociology

Quantitative Methods

Consumption

Stratification

ABSTRACT OF THE DISSERTATION

“Keeping Up” or “Keeping Afloat”? How American Households Accumulate Wealth

By

Jeffrey Dalton Lundy, II

Doctor of Philosophy in Sociology

University of California, San Diego, 2012

Professor Akos Rona-Tas, Chair

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Since Veblen’s seminal work on “conspicuous consumption,” a major academic tradition has connected household wealth loss to status-driven overspending. Using Consumer Expenditure Survey data from 2004-2009, this dissertation explores consumption patterns of American households to assess determinants of wealth loss. Of particular interest is the conformity of observed patterns with the expectations of

status-spending theories and other theories of wealth loss and overspending. Findings from a series of logistic and OLS regression models indicate that disadvantaged circumstances (e.g. job loss, extreme medical costs, poverty) have considerably more explanatory power than status spending. I conclude that wealth loss is not primarily attributable to households' desire to overspend, in the contemporary American context.

CHAPTER 1: WHY STUDY WEALTH ACCUMULATION?

While reporting from the floor of the Chicago Mercantile Exchange in early 2009, CNBC reporter Rick Santelli launched into a widely-publicized tirade (Blumer 2009). In the tirade, Santelli offered his view on the “Great Recession” currently afflicting the United States. Referring to the planned *American Recovery and Reinvestment Act*, Santelli shouted: “[Do] we really want to subsidize the losers' mortgages; or would we like to … reward people that could carry the water instead of drink the water? … This is America! How many of you people want to pay for your neighbor's mortgage that has an extra bathroom and can't pay their bills? Raise their hand.” Among shouts of support from the trading floor, Santelli forcefully asserted the cause of Americans’ financial woes: a large portion of American homeowners had taken irresponsibly large loans, and now they were being brought to task for this irresponsibility. According to Santelli, Americans lost wealth because they spent beyond their means. Moreover, to reward them now for their “bad behavior” was foolish.[1]

Santelli was not alone. In the United States, there is a widely-held belief that excessive consumer spending, and in particular frivolous status spending, drives households to financial ruin. In this dissertation, I use data from the *Consumer Expenditure Survey* to assess the validity of this claim for the period between 2004 and 2009. Specifically, I explore the role of consumer spending, and in particular status spending, in household wealth loss. The results of this work upturn many of our common assumptions about Americans’ financial management.

In this introduction to the dissertation, we will start by considering the meaning of wealth, and why it is such an important resource deserving further study. Then we will turn to the causes of wealth accumulation, and why this topic has gripped public attention in the last decade. After that, we will consider why wealth accumulation has been so hard to research, and introduce a novel approach to the problem. Finally, we will conclude with an overview of the coming chapters, and a final note on terminology used throughout the dissertation.

WHAT IS WEALTH?

Wealth is a straightforward concept – it is the total of all private property we own. Measured as "net wealth" or "net worth," the value of one's wealth is the sum of all assets (e.g. homes, cars, bank accounts) minus the value of all liabilities (e.g. credit card debt, student loans, mortgages). When the value of accumulated assets is greater than accumulated debts, a person is said to have positive net wealth. A person has negative net wealth when the situation is reversed.

Accumulating wealth is a goal for most people around the globe. The advantages of accumulating wealth are multitudinous. For one, many assets appreciate in value without the direct labor of the wealth owner. Obviously this ability to increase value without the input of labor is an attractive means for increasing productivity and leisure time. Wealth also grants financial stability. For instance, households who do not save are vulnerable to bankruptcy (Fan and Hanna 1992; Debelle 2004), as well as to being caught short when troubled financial times arise

(Hanna, Chang et al. 1993). Similarly, accumulating wealth is the key to achieving a comfortable retirement in elder years.

Wealth also has demonstrable political and social power. It has the power to buy political and social influence (Useem 1984), and to mark one's status as an elite (Sen 1992; Oliver and Shapiro 2006). Given wealth's importance for the well-being of individuals, it is not surprising why it is of interest to scholars.

But there are other reasons why understanding wealth is important. For instance, the strategies employed by households for gaining wealth have important societal effects, beyond their immediate effects on individuals' gains and losses.

This is perhaps most evident now as the financial crisis of 2008 continues to debilitate the American economy. Precipitated by the bust in subprime mortgages (Bajaj 2008), the current downturn reveals the tremendous influence that households' collective investment choices have on macroeconomic stability. No matter the motivation one ascribes to their actions, it is inescapable that homeowners were an integral part of the bubble through their acquiring of mortgage debt.

The declining aggregate savings rate (OECD 2010) is another example of the influence that consumers exert on society through their investment choices. The personal savings rate is directly related to private investment (Guidolin and La Jeunesse 2007), and can have an inverse association with consumer spending (Garner 2006). Because of these relationships, the savings rate has the power to affect macroeconomic trends like business investment and Gross Domestic Product.

Beyond its practical significance at the individual and societal level, studying wealth accumulation is also important for developing economic theory. To understand why households gain or lose wealth requires understanding how consumers make economic decisions, and the factors that influence those decisions. Because consumers' purchases are directly related to their wealth (e.g. homes, cars, overall spending), how consumers decide to purchase products is one of most important of these decision-making processes. Unfortunately, as several prominent sociologists have mentioned, the field of economic sociology has largely ignored the realm of consumers and consumption.

For instance, in 2005 Vivianna Zelizer wrote that "we find extensive consumption studies, but they remain remarkably fragmented, with various sociological specialists taking them up as part of other inquiries" (2005). Zelizer is noting that consumption has been a central topic outside of economic sociology. Many recent studies have focused on specific types of consumption, often as a markers of aesthetic and cultural tastes (Peterson 1997; Zukin and Maguire 2004; Peterson 2005), rather than focusing on the financial impacts of consumers' spending.

Another prominent call for consumption research was made by Richard Swedberg in 2003, when he wrote that "the sociology of consumption has developed independently of economic sociology – and this is something that needs to be changed if economic sociology is ever to cover all the major aspects of economic life" (2003). As Swedberg mentions separately (Nee and Swedberg 2005), consumption is one of three main divisions of economic activity, along with production and distribution.

That a third of this tri-part division should be ignored is remarkable. Certainly, the purchasing of products is as integral to economic life as their production and distribution. Of course, there are notable exceptions to this blindspot on consumption (Wherry 2008), but certainly more empirical work is needed for the field to better envision how consumers make purchasing decisions.

WHAT DETERMINES HOW MUCH WEALTH WE GAIN OR LOSE?

American households endured considerable financial challenges in recent years, making the topic of wealth accumulation extremely salient. Between 1995 and 2010, households saw the value of their personal wealth whipsaw four times. Each gain and loss was more extreme than any swing seen since the federal government began tracking personal wealth, 43 years earlier (Bureau of Economic Analysis 2011). The fiercest downswing came in 2008, when the United States experienced a macroeconomic disturbance unprecedented since the Great Depression. Measured from the bubble's zenith in 2007 to its nadir in 2008, American households lost about 17.5 trillion dollars in per capita net wealth, a 23% decline (Bureau of Economic Analysis 2011). While numerous recessions have plagued the U.S. since the Great Depression, none have had such detrimental effects, and lasted for so long, as the "Great Recession" of 2008 (Willis 2009). In the face of such challenges, many Americans wondered why their wealth was fluctuating so wildly. They also wondered how the country found itself in such a volatile situation; and in particular, how the devastating housing bubble, and the resulting financial crisis, had ever come to exist.

For many commentators on the crisis, the answer seemed obvious: Americans lost wealth because they overspent on status goods (cf. to Santelli's comment at the beginning). Many were also quick to assert a causal link between the economic crisis and high levels of indebtedness. This assertion – connecting wealth loss to overspending – was not new. Since the 1990s, authors like Robert Kiyosaki and Suze Orman built small empires selling books like Rich Dad, Poor Dad (2000) and The Money Class (2011). In these books, the authors assert that Americans can't properly curtail their spending, and that this is the primary cause of their financial difficulties. A typical example of their arguments is found in Orman's March 2011 interview with *Time*: "The American dream transformed over the past few years. It became a dream of bigger, better, newer. How do you buy stuff without any money? It was leverage. It was this American financial fantasyland. We were all trying to keep up with the Joneses. We were all trying to do things that we never should have done. And that American dream turned into the greatest financial nightmare of all time" (Sachs 2011). Like Santelli, Orman directly connects the financial crisis of 2008, and wealth outcomes more generally, with the profligate spending of American households. Judging by Orman's popularity, many Americans agree with her assessment. To date, she has had nine consecutive New York Times bestsellers, has hosted one of the top-rated shows on CNBC for over ten years, and has won two Emmys for PBS specials based on her books (Orman 2011).

Media personalities like Santelli and Orman are not alone in asserting that wealth accumulation is primarily connected to overspending – similar arguments have

been expounded by academics for decades. In fact, since the turn of the 20th century, a long scholarly lineage has connected reduced wealth accumulation with status overspending (Duesenberry 1949; Veblen 1973; Adorno and Horkheimer 2002). In recent times, social theorists have continued to build upon this tradition.

For instance, Juliet Schor, in her best-selling book The Overspent American, argues that Americans overspend due to a recent upscaling of their status reference groups (1998). Economist Robert Frank, in his book Luxury Fever, argues that Americans have redefined the meaning of "luxury," and now think discretionary goods are necessities (1999). One group of scholars has even made the controversial claim that minorities overspend out of a particularly strong desire to impress their racial peers (Charles, Hurst et al. 2009).

Of course, there are detractors to these kinds of arguments. Other scholars have argued that wealth loss is unconnected to a compulsion to overspend, and some outright disagree with status overspending arguments. For instance, Elizabeth Warren has argued that status theories are overstated, and that they blame victims of disadvantaged circumstances for financial misfortunes outside of their control (Warren and Warren Tyagi 2004; Warren 2005).

Along the same vein, the sociological literature contains a number of alternate explanations for wealth accumulation, other than status spending. For instance, the classic work of Blau and Duncan (1967) argued that parental status, by way of education and income level, was a major determining factor of one's financial position. Influentially, the work of Oliver and Shapiro (1995) argued that the structure

of race in the United States leads black families to accumulate significantly less wealth than white families. The work of Gottschalk and Danziger (1984), as well as Keister (2003), argued that family composition and changes in family composition have strong effects on household wealth. What's more, the work of Modigliani and Brumberg (1954), in a key piece for orthodox economics, argued that age has a significant impact on wealth accumulation.

These alternate explanations for wealth accumulation share a common theme: each argues that an ascribed social status (e.g. race), or an imposed circumstance (e.g. loss of a job, divorce) affects an individual's wealth. As such, they can be contrasted with the claims of status spending theories arguing that overspending is driven by a compulsion to impress one's peers.

Obviously, there is a theoretical tension in the field of sociology between these two types of wealth accumulation arguments. On one side are theorists who argue that reduced wealth accumulation is driven by "keeping up" with one's peers. On the other side are those who argue that it is driven by "keeping afloat" during hard times. Some of the tension in this dialogue is overt; for instance, the arguments of Elizabeth Warren are chiefly directed against status theories of overspending. Some of the tension is implicit – a divide in explanation caused by the differing approaches of various sub-fields. For instance, classical theories of stratification, like that of Blau and Duncan, do not explicitly argue against the status spending arguments of theorists like Juliet Schor or Robert Frank. Nonetheless, they do offer a mechanism for financial

accumulation that is divergent from status spending theories, and which status spending theorists downplay.

Given the extreme volatility of wealth in recent years, and the wide array of interesting and plausible theories offered on either side of this debate, it is surprising that none of these scholars have explored comprehensive empirical data to directly test their theories about overspending or American wealth accumulation. In fact, such basic questions as how many households gain wealth, and by how much, have been largely neglected.

Furthermore, theorists often demonstrate suggestive findings for one particular mechanism of wealth accumulation, without examining its overall prevalence. A theorist may show that Mechanism A has a demonstrable effect on households' wealth; but how important is Mechanism A as a causal factor in general? That is, how much does it explain wealth accumulation when compared with Mechanism B, or Mechanism C?

This work endeavors to address these questions, by using a new approach – a novel reconstruction of a survey produced by the U.S. Bureau of Labor Statistics (BLS) called the *Consumer Expenditure Survey* (CE). As will be discussed in the next section, the project will use CE data to explore how various life circumstances, as well as households' spending, affects their gains or losses. By seeing which types of households buy which types of goods, this project will offer a fresh glimpse into how households gain and lose wealth, and ultimately the extent to which wealth-losing households are trying to keep up, or they are just trying to keep afloat.

A NEW SOURCE OF DATA

A lack of comprehensive data on households' balance sheets is one of the main reasons why there are relatively few empirical investigations of wealth. While statistics on income are present in a broad variety of surveys, wealth and consumption statistics are more limited. Due to this limited selection, many researchers have relied on the coincidence of aggregate-level wealth statistics to make arguments about individual-level economic decisions.

For instance, some economists have shown that the national savings rate is strongly correlated with aggregate capital gains (Marquis 2002; Reinsdorf 2007). This suggests that households are equating capital gains with saving as a means for gaining wealth. While the coincidence of aggregate statistics is suggestive of individual decisions, these statistics over-represent the actions of a limited number of households with large wealth ownership. Examining disaggregated transactions offers a more direct picture of how households manage their finances, across all levels of wealth ownership.

When researchers turn to household-level microdata, they largely employ cross-sectional surveys. For instance, in their Annual Review article on wealth inequality in the United States, Keister and Moller note that the majority of these studies rely on the Survey of Consumer Finances (SCF) (2000). Cross-sectional surveys like the SCF provide a detailed, static snapshot of household wealth. However, because they only capture a single point in time, they make it difficult to explore the causal relationship between household-level economic actions. Because of

this difficulty, many researchers using microdata stick to descriptive statistics about the basic distribution of wealth components; e.g. the average wealth holdings of various net worth quintiles. These works are suggestive of the life-circumstances of households at various levels of wealth ownership, but they cannot truly connect the individual actions of particular households with their wealth outcomes.

A notable exception is the work of Lisa Keister, whose micro-simulation model marries detailed SCF data with other surveys containing demographic and financial information (2003). Her work has been valuable for testing how hypothetical changes in the wealth holdings of various demographics would result in shifts in the wealth distribution of the U.S. population. However, her model is limited in certain respects, because it does not include information on actual household financial transactions. With simulated behavioral data, it is hard to say how households would actually react to shifts in their investments. Keister does an amazing job of accounting for numerous macro- and micro-economic parameters, but some interactions are difficult to simulate. For instance, if a given household were to gain more wealth from stocks, would they continue to save at the same rate?

Clearly, there is a need for wealth research to look at the spending, saving, and investing patterns of actual households, and the effects of these actions on their wealth outcomes. Surprisingly, there is a survey collected in the United States, which contains the reported balance sheets of a large sample of American households: the *Consumer Expenditure Survey* (CE). Participating in the survey for a whole year, households report their total annual spending and investing on a wide array of items,

along with the annual change in value for most of their assets and debts. In terms of categorical coverage, the wealth categories tracked by the CE are similar to those in the well-regarded *Survey of Consumer Finances* (SCF).

Despite its tremendous potential for studying household-level wealth accumulation, the CE has been little used in wealth research. Better known for measuring consumption, only recently have researchers begun validating the CE's wealth estimates against estimates from other well-established surveys (Johnson and Li 2009). The results of this research are surprisingly positive. As will be shown in a later chapter, new validation work conducted for this project corroborates the positive findings of prior work.

By showing the micro-level pressures affecting households' finances, the CE has great potential for examining the mechanisms of wealth accumulation. In particular, its ability to connect changes in wealth with households' spending patterns makes it uniquely helpful for exploring the keeping up vs. keeping afloat discussion. For instance, one can use the CE to correlate spending on boats with households' annual wealth gains, to see how much boat expenditures affect a household's wealth. Similarly, one can examine the impact of elevated medical expenses, or of losing a job, or of being a racial minority, etc. on a households' change in wealth over the course of their survey year.

Furthermore, where previous studies have offered suggestive evidence connecting status spending with reduced saving; this work will use the CE to directly measure the effects of specific expenditures on households' *total* change in net wealth.

While saving is obviously correlated with wealth gains and losses, a household can save (i.e. divert income into reserves), while still gaining tremendous debt through loans. Conversely, households with little saving can experience large gains in the market value of their investments. In both cases, a household's final change in wealth has little to do with their saving. Thus, when attempting to see how a household is affected by various financial actions, it is problematic to only examine saving practices. By studying how spending affects change in total net wealth, this project will provide a more comprehensive perspective on whether households "got ahead" or "fell behind" than previous work based only reported saving.

DISSERTATION OVERVIEW

In the chapters that follow, this work provides answers to one primary question: Why do American households gain or lose wealth? This question is both a practical and a theoretical puzzle. In practical terms, wealth accumulation greatly influences the stratification of the United States, and the mechanisms behind this stratification have not been fully explored. In terms of theory, the question of wealth accumulation is intimately entwined with the question of what motivates consumer spending. In an age where the salience of labor – that is, the production and distribution of goods – has declined as a form of social identity, and where the salience of consumption has continually intensified as a source of social identification, it would behoove sociologists of many stripes to better understand how consumers make spending choices.

To begin addressing this central question, the next chapter will review the works of previous scholars. Because their theories represent different understandings of how households accumulate (or fail to accumulate) wealth, this survey of their works will expose the wide variety of mechanisms offered to explain wealth accumulation. Additionally, Chapter Two will outline the features of the "keeping up vs. keeping afloat" discussion – outlining the detailed mechanisms offered by authors on either side of this dialogue. A special focus of the chapter is to delineate definitions of the terms commonly used, so to gain clarity on the often nebulous topics central to this discussion.

From this review of the literature, we will see that the field of sociology is divided on the subject of consumption. In particular, we will see two kinds of arguments regarding how consumption affects households' financial well-being. On one side of this dialogue are arguments claiming that households suffer because they try to "keep up" with their peers. On the other side, arguments claiming that households suffer because they struggle to "keep afloat" during unexpected or disadvantaging circumstances.

Then in Chapter Three, the data for this project will receive special attention. The point of this chapter will be to outline the features of the *Consumer Expenditure Survey*. Additionally, the chapter will explore the survey's value for measuring annual changes in households' wealth, by comparing estimates from the *Consumer Expenditure Survey* (CE) with two well-regarded wealth surveys, the *Flow of Funds Accounts* (FOFAs) and the *Survey of Consumer Finances* (SCF).

By comparing the CE with the FOFAs we will validate its estimates of change in household wealth. We will see that the CE tracks very well with movements in the FOFAs (though it does not estimate the volume of wealth accurately). Combined with previous work, these findings indicate that the CE's wealth estimates are accurate at the individual household level, though they should not be used to estimate change in wealth at the national, aggregate level.

From comparisons with the SCF, we will also gain perspective on how annual changes in wealth compare with life-to-date wealth changes. Most notably, we will see that estimates of change in wealth show many more losses when measured annually than life-to-date. This will be shown to result from a number of factors, including life-cycle spending and the effects of credit.

Finally, through our explorations of the data in Chapter Three, we will examine a little-addressed issue in wealth research: the impact of social security. In particular, we will examine why contributions and withdrawals to social security might be included in estimates of personal wealth, and show that social security makes a discernible difference in estimates when it is included vs. excluded.

Chapter Four addresses the main question of this work: why do American households gain varying levels of wealth? To begin this task, the concepts in Chapter 2 are connected with variables in the CE, in order operationalize the theoretical constructs of previous authors. Then, using both logistic and linear regressions, the various factors meant to explain wealth accumulation offered by status spending and

alternate theories will be tested. By comparing their contribution to the explained variance in accumulated wealth, the relative importance of these factors is explored.

Based on the results of the regression models, we will see that increased recreational spending does not significantly influence households' wealth accumulation. Measures of recreational spending add little explanatory power to the models, and most of these coefficients are insignificant; moreover, several coefficients run contra to the expectations of status spending theories.

From the models we will also witness the comparative influence of disadvantaging circumstances. Conditions such as minority racial status, poverty, single-parenthood, losing one's job, having high medical costs, etc. all show considerable influence on households' annual and long-term wealth gains. These factors also are shown to cause more frequent wealth losses.

Finally, from the results of Chapter Four, we will also gain a glimpse of the differing realities faced by households with varying levels of wealth ownership. Households without significant wealth are affected much more by loss of a job and other forms of income shock. On the opposite end of the spectrum, households with substantial securities investments are far more affected by the macroeconomic downturn of 2008.

In Chapter Five, we will more deeply address the question of whether status spending is to blame for American household wealth losses. This chapter starts by exploring the demographic and spending characteristics of households devoting an elevated amount of spending to status items. In doing so, it provides evidence for

what traits most characterize "overspent Americans." By looking at these characteristics, we will glean insights into what might be motivating these households' heightened spending.

Foremost among the results of this chapter, we see that households spending more on recreational goods did not fare worse than their peers who spent less on recreation, during the survey period. In fact, elevated recreational spenders are found to compensate for their higher spending by reduced spending in other budgetary areas.

Other findings from this chapter will show that above-typical recreational spenders tend to have a broader taste for recreational goods, when compared with their below-typical recreational spending peers, and that they also tend to spend less on housing, education, medical costs, and particularly, transportation. Additionally, analysis of recent historical trends reveals that aggregate recreational spending declined in recent decades, as a proportion of households' income. This is quite surprising, because it belies the common belief that Americans have become increasingly willing to spend more on their personal enjoyment.

In the final chapter, we will cover the ultimate meaning of my findings for economic theory and stratification research. Policy implications and helpful future work will also be outlined. Additionally, thoughts will be offered about the factors that lead to misconceptions about the causes of wealth accumulation among the American public.

A CONCLUDING NOTE ON TERMINOLOGY

So far this work has judiciously employed the term "wealth accumulation" to describe the process by which households have varying gains and losses in their wealth. However, examining change in wealth is an exceedingly relativistic task, and it is one for which the English language is only awkwardly equipped. For instance, using the term "wealth accumulation" suggests that households always *accumulate* wealth, and thus that the object of this study is simply to see *how much* wealth various households gain.

Of course, it is well known that many households also lose wealth. Yet it is a bit of a mouthful to say: "the point of this project is to study the extent of gains among households that gained wealth, and the extent of losses among households that lost wealth." Or, to take a most accurate (and terribly cumbersome) tack: "the point of this project is to study the change in households' wealth reserves between two points in time, one year apart, allowing that these changes can be either positive or negative."

The difficulty of talking about gains and losses is not new to this project. Works discussing capital gains and losses will often employ awkward constructions like "capital gains/losses," "capital gains and capital losses," or will just skip the problem altogether by simply writing "capital gains," even when both gains and losses are being referenced.

To avoid such cumbersome reading, this work will refer to "wealth accumulation" even when attending to theories that are primarily focused on losses in wealth. At times, it will refer to households gaining wealth, when the mechanism at

hand is also known to lead to wealth losses. For instance, it might be said that "the system of racial privilege in the United States leads to wealth gains among certain households." Such a statement does not preclude the possibility that racial privilege in the United States also leads to wealth losses among other households.

In the following chapters, if wealth gains are referenced and wealth losses have not been referenced, one should not assume that the possibility of wealth loss has gone unconsidered. Rather it is simply too cumbersome to always read "wealth gains and wealth losses" in every instance in which a change in wealth is mentioned. Hence, the reader should bear in mind that references to "wealth gains," "wealth losses," and "wealth accumulation" all are shorthand for the fundamental task of this project: studying annual *changes* in households' wealth, allowing for the understanding that changes exist along a continuous spectrum running from very large negative losses, to zero change in wealth, to very large positive gains.

CHAPTER 2: EXPLAINING WEALTH ACCUMULATION

There are *a lot* of theories for why certain households end up "getting ahead" while other households "fall behind." In fact, since the very origins of personal property in the ancient world, writers (Alighieri 1915 [circa 1300]) and philosophers (O'Connor 1993 [circa 300 BC]) have produced ideas about how one accumulates financial wealth. In modern times, the scholarly literature is filled with research coming from sociology, economics, public policy, demography, consumer economics, and even from fields like evolutionary psychology (Hartung, Abelson et al. 1976; Apostolou 2011) and neuroscience (Begley and Chatzky 2011).

In this chapter, it will be valuable to cover some of the most prominent explanations regarding the accumulation of wealth arising in recent years. This will provide a sense for the variety of ways scholars have explained the phenomenon. Of course, it is impossible to cover every point of view, and some explanations deserve more of our attention.

For instance, theories from the field of economics tend to focus on how individuals accumulate varying levels of wealth based on the strategies they employ while competing in an open market. In fields like sociology, theories tend to focus on social pressures that are outside of economic competition, or which alter economic competition. As an example, some sociological theories argue that wealth accumulation is affected by status pressures that are exogenous to the desire for accumulating economic wealth (i.e. households are interested in "social capital" as well as economic capital). Theories based in social stratification often highlight how

competition in markets is not always equal, and that some competitions are contested on an "un-level playing field."

To understand why households accumulate varying levels of wealth, we need to keep in mind both strategic utility maximization in an open market, as well as social pressures that alter or inflect this utility maximization. In the present situation however, these two approaches have not received equal empirical investigation. While the field of economics has made extensive studies about the exact propensities to take various strategic actions and the outcomes of those actions, fields like sociology have not done as much empirical work to compare the explanatory power of the theories they have enumerated. Hence, the special focus of this chapter will be on sociological theories of social pressures that affect households' wealth.

STATUS SPENDING

For a long time theorists have argued that Americans judge social status through their personal wealth. For instance, even in the middle of the 19th C., Alexis de Tocqueville noted that "the distinction originating in wealth is increased by the disappearance and diminution of all other distinctions … The love of wealth is therefore to be traced, either as a principal or an accessory motive, at the bottom of all that the Americans do." (de Tocqueville 2004 [1825])

Starting in the American "Gilded Age," theorists also began to connect Americans' status comparisons with their personal spending. In particular, Thorstein Veblen contended that elites began showing their superiority through blatant and extravagant spending; in opposition to former elites who showed their status through

signs of political nobility (1973 [1899]). Elaborating on his idea, Veblen wrote: "since the consumption of these…excellent goods is an evidence of wealth, it becomes honorific; and conversely, the failure to consume in due quantity and quality becomes a mark of inferiority and demerit." (Veblen 1973 [1902], p. 68) As is evident from this short passage, Veblen argued that spending on certain visible goods indicated one's wealth and status. What's more, failing to spend on certain goods indicated "inferiority"; and so among the elite, spending became not just a means of status demonstration, but also a prescriptive necessity for entrance into the class. Veblen called this type of spending "conspicuous consumption." Historically, the idea of conspicuous consumption greatly influenced economics and the social sciences, and has even entered into everyday use.

Following Veblen in the early 20th century, members of the Frankfurt school extended his line of argument by claiming that "invidious consumption" had become the dominant form of capitalist exploitation among the "masses" (Adorno and Horkheimer 2002). These authors claimed that the system of capitalism occupied workers' minds with "false choices" between products that had little distinguishable utility, by stupefying them with a constant barrage of consumer products.

Following World War II, the relative consumption model of James Duesenberry (1949) further advanced status spending arguments by popularizing the idea of "keeping up with the Joneses." Essentially, Duesenberry's model argued that if individuals experienced higher incomes, they would save more (in accordance with traditional economic theory). However, he further argued that the increase of these

few would decrease the relative income of those below them, causing lower-income individuals to consume more (and save less). Duesenberry's arguments demonstrated to academics that households adjusted their spending in accordance with their peers, and not simply to their own "personal utility."

Following in the late 20th century, Pierre Bourdieu also notably theorized that purchases could signal an individual's social and cultural capital. In fact, he argued that the *nouveau riche* of France often tried to increase their social capital through purchases of certain cultural goods (Bourdieu 1993). Bourdieu's outsized influence on the social sciences has probably contributed much to perpetuating the idea that purchased goods carry social capital above their practical utilitarian value for an individual.

Recent Takes on Status Overspending

In recent years, the work of two scholars has prominently loomed over research into status spending: sociologist Juliet Schor and economist Robert Frank.

Juliet Schor and The Overspent American

In Juliet Schor's influential work, she has continued the tradition of status spending arguments by criticizing Americans' habits for overspending. In her book The Overspent American (1998) Schor argues that Americans' perception of "necessary spending" has changed over recent decades, as Americans compare themselves to more and more unrealistic reference lifestyles. The result, Schor claims, is that many families (even in the higher income range) feel pressure to compete with the living standards of those with far greater resources. In turn, this pressure has led

households to make purchases outside of their means, and become financially strapped. By connecting household overspending to status comparisons, Schor is part of the long-standing tradition of sociological work which argues that the root of wealth loss lies in status competitions with one's peers.

Schor also believes that status overspending is a pervasive cause of wealth loss, at least among the middle and upper classes. For instance, in her chapter "When Spending Become You," she states: "Americans live with high levels of denial about their spending patterns… Not paying attention to what we spend is also very common… Most Americans don't budget. And they don't watch." (1998: 83) What's more, Schor also argues that status emulation is strongly linked to reduced wealth accumulation. From her study of 834 middle- to upper-class "Telecom" employees, Schor concluded that "your *comparative* position [to a reference group] has a major effect on your saving." (1998: 77 [emphasis in original]).

Robert Frank and Luxury Fever

The other major proponent of Americans "spending beyond their means" is economist Robert Frank. In Luxury Fever (1999) Frank argues that overspending results from two main factors.

First among these factors is a cognitive shift in the mindset of consumers. Specifically, Frank argues that a recent incursion of luxury goods into the mainstream has caused consumers to reassess products against a broader spectrum of possibilities. This reassessment has consequently led them to reconsider their definitions of what they desire. For instance, a consumer might have considered a $90 grill "decent" in a

market where $150 buys you the best grill; but now the same grill looks "shabby" in a market where the top-of-the-line grill goes for $2,000. Because of this change in consumers' cognitive frameworks, Frank argues that many Americans are now besieged by "luxury fever," and feel they "need" professional cooking appliances, slate bathrooms, and even everyday luxury goods like premium coffees and chocolates.

Second among the reasons Frank believes that consumers are overspending is a shift in the competitive acquisition of "positional goods." Specifically, Frank argues that Americans are caught in a cycle that might be called "defensive spending." He illustrates the situation Americans face with a classic collective action problem: one concertgoer stands up in their seat to get a better view, but summarily blocks the person behind them; this starts a cascade whereby everyone ends up standing to regain their view. In this case, everyone ends up worse off (because they cannot sit down), but no one gains a relatively better view in the end. In relation to spending, Frank argues that the problem many Americans face is that they must buy positional goods (like houses in a good school district), if they want to keep their family in their current status. The resulting competition for positional goods starts an "arms race" whereby each household must struggle against the stream just to stay in place.

What's notable about Frank's argument is the extent to which he describes spending as a non-conscious, reflex action. Compared with Schor, Frank is much stronger in his assessment that Americans have little rational control over their desire to spend:

> In short, both the things we feel we need and the things available for us to buy, depend largely – beyond some point, almost entirely – on the things that others choose to buy. When people at the top spend more, others just below them will inevitably spend more also, and so on all the way down the economic ladder. (1999: 11)

At points, Schor also speaks of status spending as "almost Pavlovian" (1998: 73). However, she does not go so far as to speak of status emulation as "inevitable." Nonetheless, it is clear that both authors believe a desire to spend is very deeply rooted in the mind of American consumers – to their financial detriment.

Racial Peer Groups

Besides the theories of Schor and Frank, there is another status spending theory that has enjoyed recent attention. Its roots lie at the beginning of the 20th C., when a recurring theme emerged in American discourse about racial minorities – namely, that minorities are financially disadvantaged because of how they mismanage their spending (Austin 1994; Cosby 2004; Douglas 2005). Recently researchers have attempted to determine whether spending differences actually exist among racial groups, and some of them have received prominent media attention (Fisman 2008; Postrel 2008).

Most notable among these researchers are Charles, Hurst, and Roussanov (2009). In their work, the authors found that black and Hispanic Americans apportion a higher percentage of their budget to "conspicuous" expenditures than White Americans, even when controlling for income differences. However, despite the apparent finding of a direct cultural influence on spending, the authors argued that racial differences are spurious, and are explained by the lower income level of

regional reference groups. Essentially, the authors argued that race served as a proxy for living among low-income local peers, and thus that race (at least as a direct cultural factor) did not explain status spending.

In terms of wealth loss, the authors suggest that their findings can be linked to previous work on conspicuous consumption (esp. Frank). Based on this connection, it seems that the work of Charles et al. predicts minority groups will be more likely to overspend, because minority racial status should serve as a proxy for living among a lower-income reference group, and this condition is related to a greater propensity for status spending.

DISADVANTAGED CIRCUMSTANCES

Status theories argue that households accumulate varying levels of wealth based on their susceptibility to status pressures. The following section outlines theories which suggest other social mechanisms for why households lose or gain wealth. These theories share a common theme: each posits a societal mechanism that imposes disadvantages on certain households, thus causing them to accumulate less wealth than other households.

Elizabeth Warren and The Two-Income Trap

Counterpoised to status spending theories of wealth accumulation, Elizabeth Warren has staunchly criticized the idea that households are increasing their spending out of a desire to maintain or advance their status among peers (Warren and Warren Tyagi 2004; Warren 2005). Warren offers an alternate explanation for recent wealth

losses: In the past, when a single-earner household was the predominant social expectation, a wife could serve as a potential “backup worker” for households when times got tough. However as the dual-earner household has taken hold, households now have a higher living standard, but are also more vulnerable to economic downturns, because of the loss of the auxiliary-earner safety net. This greater vulnerability, coupled with increased spending on long-term family investments (college educations, house mortgages, etc.), has led to more household debt and less financial security.

Interestingly, Warren’s theory echoes Frank’s concerns about a spending “arms race.” However, her arguments are distinguished from those based on status-seeking, because Warren emphasizes that most of households’ overspending is for goods that are “sensible” family investments like housing, education, and health insurance. In this vein, Warren argues that households who spend on conspicuous or luxury goods are more responsive when financial times go bad, than households who hold long-term investments in their families. If one is overspending on trivialities (e.g. expensive coffees), she argues that it is easier to halt this type of spending, than if one is overspending on long-term family commitments (e.g. college educations or house mortgages). Thus, she argues that wealth-losing households should mostly be characterized by debts for long-term family investments, rather than short-term luxury or conspicuous purchases.

Family and Stratification

In their classic work on mobility, Blau and Duncan (1967) argued that parental status, by way of education and income level, was a major determining factor of one's financial position. Specifically, using structural regression modeling, Blau and Duncan showed that a father's job status and education had direct and indirect effects that strongly predicted a child's future job prospects. Basically, their findings showed that much of an individual's current job position, which appears to result from their separate and individual efforts, is in fact largely explained by the privileges offered by their parent's previous economic position, via its effect on a child's educational attainment.

Another way that family affects stratification is found in the work of Gottschalk and Danziger (1984), as well as Keister (Keister 2003). These authors have separately argued that family composition and changes in family composition have strong effects on household wealth. For instance, evidence suggests that marriage and widowhood increase wealth ownership, while increased family size and family dissolution (i.e. divorce or separation) decrease wealth ownership (Kennickell and Starr-McCluer 1994; Kennickell, Starr-McCluer et al. 1997).

Race

Influentially, the work of Oliver and Shapiro (1995; Oliver and Shapiro 2006) argues that the structure of race in the United States leads Black families to accumulate significantly less wealth than White families. In their work, the authors elaborate both class and racial-discrimination mechanisms that produce disparities in

wealth. On the one hand, the authors note that past disadvantages faced by Black households (e.g. slavery, segregation) lead to disadvantages in the market, which are not immediately related to persisting racial antipathies. On the other hand, Oliver and Shapiro are quick to note that the persistence of culturally discriminatory practices also affects racial minorities. They note, for instance, how persisting discrimination lowers the property values of homes owned by Black Americans.

Through survey research, Oliver and Shapiro show that many optimistic appraisals about the creation of a Black middle class have missed the startling gap in wealth that remains even among the highest wage-earning Black Americans. According to their research, the average difference between the assets of comparable Black and White families in 1995 was $43,143 (1995, p. 10) and by 2002 the wealth gap had increased by $14,316 (2006, p. 204). Therefore, estimates of a growing Black middle class based on income neglect to see the substantial difference between Whites, who have a "column of stability" created by their wealth and the opportunity for investment, and Black Americans, who precariously have neither.

Beyond the influential work of Oliver and Shapiro, there is a trail of corroborating evidence suggesting that people of color face greater difficulties in the U.S. economy. For instance, a recent audit study has shown that stereotypically Black names on a resume received far fewer responses than the exact same resume addressed with a stereotypically White name (Bertrand and Mullainathan 2004). Other evidence suggests that Black households pay a higher price for vehicles; a bargaining situation

which permits more leeway for discrimination to affect prices (Ayres and Siegelman 1995).

NEO-CLASSICAL ECONOMIC THEORY

Despite their variety of approaches, the theories listed so far have been similar in one respect: when explaining why households accumulate different levels of wealth, they have all focused on households' income vis-à-vis their spending. Status spending theories propose that households spend too much of their income, and this leads them to vulnerability. Theories based on disadvantaged circumstances argue that negative situations (like losing your job or facing racism) force households to have incomes that are too low, or expenditures that are too high, to be sustainable. So, despite differing approaches, all of the theories above argue that the fundamental mechanism for gaining wealth is household saving. Gaining wealth is about having income in excess of spending (i.e. saving), and conversely, losing wealth is the result of spending more than income.

Orthodox microeconomic theory recognizes a number of other factors affecting households' wealth. In addition to the income/consumption ratio, there are things like capital gains and losses, interest on loans, and the assumption of debt. None of these factors is strictly connected to a household's savings rate. Because the fundamental task of this work is to examine which factors most strongly affect households' wealth accumulation, it would be foolish to ignore these other sources of wealth gains and losses.

Additionally, microeconomic theory has another useful contribution: it recognizes that households are not merely imposed upon by society; they also proactively manage their wealth in order to maximize its growth. Such strategies among households lead to patterns in wealth accumulation that have important consequences for those studying households' finances.

The following section outlines theories from the field of economics that integrate these insights, and that are pertinent to our understanding of household wealth accumulation.

Life-cycle Hypothesis

In a key piece for orthodox economics, the work of Modigliani and Brumberg (1954) argued that age has a significant impact on wealth accumulation. Their "lifecycle model," which has been greatly elaborated by more recent work, stipulates that individuals have three age-related phases of accumulation. At first, households headed by younger individuals tend to have low levels of net worth and high leverage ratios. Households in this younger period generally take on debts to make investments in homes and in human capital, because they expect that they will cover their current debts with future earnings later in life. Next, households headed by middle-aged individuals advance to high levels of net worth and modest leverage ratios. In this period individuals have increased their salaries, paid off significant debts, and accumulated a stockpile of wealth. Finally, in the third phase, households headed by older individuals have average levels of net worth and low leverage ratios. It's during

this period that households deplete the resources gained during middle-age for their retirement.

To fully account for the causes of wealth loss, one must assess how much of the phenomenon is connected to this prevailing life-cycle model. For instance, although retirees are generally losing wealth, this group is not traditionally considered "overspent." None of the theories considered so far have referenced retirement as a luxury, a conspicuous expenditure, or a negative societal imposition. Because this type of "overspending" is not pertinent to most theories of wealth accumulation, it is important to control for this influential wealth-losing group.

Permanent Income Hypothesis

The Permanent Income Hypothesis (PIH) is another explanation for overspending found in orthodox economic theory (Friedman 1957). In essence, the theory holds that households have fluctuating incomes, and that these fluctuations deviate from a household's long-term financial situation. The real value of this insight is that households will understand the difference between their prevailing income and their expected long-term income, and thus we would expect them to "consumption smooth." Put another way, if income fluctuates between highs and lows, a household will tend to spend "in the middle" – saving when income is flush, and dis-saving when income is lean.

A corollary of the PIH is that any cross-sectional survey of annual consumption will capture some households experiencing uncharacteristic extremes in their income/consumption difference. Thus, some households with large losses are not

chronic overspenders; rather they are experiencing a short-term decrease in net worth, which they plan to compensate for over the long-term.

For instance, major purchases like a wedding, home remodeling, tuition, etc., are generally made in the span of a couple years with the help of financing. Realistically, the large up-front cost for these products might better be conceived as spread out across the entire time the financing is paid off. A $15,000 home equity loan that accrues $500 a year in interest and is paid off over 5 years essentially costs $3,500/year. However, if a household took such a loan during a survey year, the household would report an uncharacteristically large $15,000 loss in net wealth. Differentiating overspent households with large exceptional expenses adds an important dimension to understanding wealth losses.[2]

"KEEPING UP" VS. "KEEPING AFLOAT"

As is evident from this chapter, there is a tension between two types of explanation for wealth accumulation based on logic of social pressures. Some of these theories argue that households would like to save money, but that they simply cannot because of disadvantages imposed upon them. Others argue that households could save money, were they willing to forgo social status, but instead they choose the later. These two positions can be summed up as "keeping up" and "keeping afloat" (henceforth abbreviated as "KU/KA" for brevity's sake).

This tension is hardly an outright debate. In general, authors will emphasize one side of the KU/KA dialogue, without precluding the explanations offered by the other side. An author will sometimes confront the ideas of the opposing side directly;

but for the most part, points of disagreement are tacit. Yet while open conflict is rare, it is also rare for a wealth researcher to simultaneously consider explanations based on keeping up *and* keeping afloat. So authors appear to align themselves as if to the poles of some invisible magnet. What is this unseen force acting within the social sciences?

One of the major roots of the divide lies in a philosophical quagmire that has long faced the social sciences: the role of structure and agency. In brief, this debate is about the proper specification of an individual's autonomy from society (i.e. their power to act as an individual, apart from their responsibilities, obligations, and other social ties) (Giddens 1979). The point of this chapter is not to weigh-in on this long-standing philosophical conundrum. Rather, the structure/agency debate is referenced in order to explain why certain social scientists tend to emphasize explanations based on keeping up, while others focus on explanations based on keeping afloat.

The Debate between Structure and Agency

In all of the social sciences, various lines of research have emphasized an individual's autonomy to different degrees. In sociology, researchers in the field of social stratification have tended to exemplify one extreme of the spectrum.

In general, social stratification researchers examine the ways that interactions in society limit the choices of individuals. By focusing on individual limitations, this tradition of research has adopted a more social-structural view; i.e. they have tended to look at individuals as components in a broader system – a system which generally reproduces itself through time. This focus on individual limitations is one of the

reasons why income has been more broadly studied in stratification research than consumption.

Income represents abstract economic potential, and thus social differences in pay clearly limit one's capacity to purchase goods. It is evident then why income would be a favorite subject of stratification researchers – it clearly demonstrates how societal norms are connected to an individual's capacity to act in the world. In contrast, consumption is often regarded by stratification researchers as income's opposite. If income sets your capacity for action, then consumption represents the choices you make within your allotted economic power. If income is hard limitation, then consumption is regarded as the realm of personal choice.

Economic sociologist Viviana Zelizer refers to this divide as the "Hostile Worlds framework," where production and distribution are regarded as the realm of hard economic rationality, and consumption is regarded as the realm of soft expressive culture (Smelser and Swedberg 2005, p. 336). Of course, this simplification does not do justice to stratification in the United States. There are many hard limitations one faces within the world of consumption, including red-lining (Thabit 2003), differences in the price of goods (Ayres and Siegelman 1995), and differential access to essential services like banks (Caskey 1994) and grocery stores (Story, Kaphingst et al. 2008). In fact, this simplistic divide between "income as potential," and "consumption as personal choice," is precisely why a broader perspective on consumption has been called for by prominent sociologists like Vivianna Zelizer.

Opposing the approach of stratification researchers, another broad sociological tradition – cultural sociology – has tended to emphasize robust agency. The history of cultural sociology is extremely varied, and has had many twists and turns. At various points, classical theory, neo-classical theory, post-structuralist theory, neo-marxist theory, and numerous other traditions have held their sway (Wuthnow 1989). At the present moment, one of the dominant perspectives in cultural sociology has been called "practice theory" (Ortner 1984). In short, this perspective is a move to integrate people's actions (or practices) into a theory of culture, which was largely neglected in the post-structuralist and neo-marxist theories of the 1970s.

Among the practice theorists who discuss consumption, the most influential author has undoubtedly been anthropologist/sociologist Pierre Bourdieu. Bourdieu's outsized influence can be seen in the very large body of work which references his theory, and the seeming obligation of referencing his theories in any work that discusses consumption (Michel, Shen et al. 2010).[3] On the whole, Bourdieu's theories are quite deterministic, which would seem to put him on the side of social-structural accounts. However, when it comes to the subject of consumption, his idea of "cultural capital" has been widely taken-up by cultural sociology, and this has led to much research focused on individual agency.

Why has this been the case? Bourdieu's theory of cultural capital posits that individuals possess social value taking the form of knowledge about the proper means of appreciating aesthetics. Basically, Bourdieu argues that by having the appropriate taste, i.e. by "choosing and using" goods appropriately, individuals accrue social

esteem. Because the field of cultural sociology has strongly embraced the idea of cultural capital, it has busied itself with studies about the power of certain choices to signal status.

For instance, in the numerous articles on "omnivourousness" authors debate how the choice of certain types of music, food, etc. signals one's economic status (Peterson and Kern 1996; Lopez-Sintas and Katz-Gerro 2005; Zavisca 2005). This emphasis on how people choose among apparently equal options (signaling one's power to recognize the hidden value of certain types of goods), obviously leads to an emphasis on an agent's autonomy. This perspective revolves around the freedom of choice – what does one *choose* to appreciate, and then what does that *choice* reveal about the chooser?[4]

Researchers in both cultural sociology and social stratification study the role of society in affecting one's wealth. However, their separate scholarly traditions have led them to approach this topic with differing perspectives. Focusing on the limitations imposed upon individuals, stratification researchers have tended to see the ways that systems of privilege/disadvantage have imposed their sway, regardless of an individual's actions. Conversely, the focus of cultural sociology on "choosing and using" has no doubt supported the view that wealth is influenced by an individual's internal desire for buying status-bearing items. Which of these perspectives is correct?

Both and neither. All households are affected at some point by the desire to overspend on status goods. Similarly, all households eventually face some sort of disadvantaging circumstance (e.g. losing a job). Some households will be ruinously

affected by status spending, and some will lose heavily due to a disadvantaged circumstance. As was mentioned in the introduction, the point of this work is not to say that one side of the KU/KA dialogue is "correct," but rather to empirically explore the extent that each kind of factor affects households in the current context of the United States. By reflecting on their comparative power to influence individuals, we will gain a better understanding of which factors are the most important influences on wealth stratification. At the same time, by seeing the prevalence of these factors, we will examine the expectations of theories regarding consumers and their wealth accumulation, with the ultimate aim of evaluating and refining their assumptions about human economic behavior.

DEFINING TERMS

One of the main reasons why there has been little attention paid to the KU/KA dialogue is that most theorists in the dialogue are talking past each other. Authors employ different meanings of the same word within single works, and there is even less consistency between the works of different authors. If we are going to get to the bottom of this divide, gaining clarity on our central topics is advised.

Overspending

When scholars like Schor and Frank speak of status spending, one of the key ideas they invoke is the concept of "overspending." Indeed, Schor's most notable work on the subject is called The *Overspent* American. But what do these scholars mean by overspending? What technically defines overspending as a phenomenon?

In the canon of English writings, the earliest known use of the term "overspend" comes from the famed diary of Englishman Samuel Pepys (1970 [1667]).[5] In the passage where the term is found, Pepys complains that the royal budget is constantly overspent by the colony of Tangiers, and that this colony is of no profit to the British kingdom:

> It is plain that we do overspend our revenue; that it is of no more profit to the King than it was the first day, nor in itself of better credit; … that it hath been hitherto, and for aught I see likely only to be used as a jobb to do a kindness to some lord, or he that can get to be Governor. … Unless the King hath the wealth of the Mogull, he would be a beggar to have his businesses ordered in the manner they now are … (April 10th, 1667)

In this passage, Pepys uses the term "overspend" in the same way it is often employed today when discussing the budget of a large organization: overspending means running a deficit. The "over" in this sense refers to spending that is above the level of revenue, i.e. spending more money than one is generating.

However, this neat technical definition is not the one used by Schor and Frank. Here's Schor on the meaning of overspending: "By this I mean that large numbers of Americans spend more than they say they would like to, and more than they have. That they spend more than they realize they are spending, and more than is fiscally prudent. And that they spend in ways that are collectively, if not individually, self-defeating" (p. 21). The "over" in this sense of overspending is not the clear budgetary definition above (i.e. spending > income); rather this meaning may be generically defined as "spending too much."

This is obviously a very loose definition. Part of what Schor and Frank mean by the term has nothing to do with budgeting per se. For instance, Frank sometimes

speaks of spending on things that one can afford, but which do not lead to happiness (and hence are irrational and wasteful). At other times, however, what the authors mean by the term does relate to budgeting and balance sheets. For instance, Schor speaks of spending above the level which is ideal for maintaining a safe amount of saving (i.e. "more than is fiscally prudent"). As we will see in later chapters, the ambiguity of defining "too much spending" leads to interesting challenges when trying to test status spending theories.

Status Spending

Authors like Juliet Schor and Robert Frank clearly think that Americans are spending too much; but in equal measure they think Americans are spending on the wrong things. Both of these authors are concerned with Americans' purchases that are motivated by an unhealthy desire for social status. For Schor, this status spending is generally defined as "comparative consumption." Frank employs terms like "luxury spending," "competitive spending," and "positional goods." Both authors outline the ways that this competition for status wastes money and destroys happiness. However, it is unclear in their writing what precisely makes something a status good. What identifies a purchase as particularly status-driven?

Conspicuous Consumption

While Schor fastidiously avoids the term "conspicuous consumption" (preferring to use the term "comparative consumption"), a large part of what she describes is clearly related to the concept. For instance, in her chapter entitled "The

Visible Lifestyle," it is clear she is referring to concepts very much along the lines of Veblen's conspicuous consumption. What, specifically, is conspicuous consumption? Based on the examples offered by Schor, it seems to have several dimensions.

Foremost, the two clearest components of conspicuous consumption are visibility and the ability of a purchase to display expense (these naturally follow from the foundational writings of Veblen). Things that are hard to see are less likely to be symbolic of status. The same goes for things less able to demonstrate the amount of money expended on the object. Both of these factors are why a fire-engine-red Ferrari is a more conspicuous expenditure than laundry detergent. Beyond visibility and expense, however, another dimension of conspicuous consumption seems to be the "contentiousness" of a good.

There are many goods on display that are viewed as idiosyncratic to the individual, and not as a gambit in the world of status competition. As Pierre Bourdieu demonstrated frequently in his works, symbols of taste exist in discrete fields of competition (Bourdieu 1993). For such a symbol to garner status, the first step in the process must be recognition of the proper field of appreciation by the correct audience. Wearing expensive lederhosen is highly visible, and yet compared to designer sunglasses, it earns less status (if not negative status) because wearing lederhosen is seen as idiosyncratic and outside of the field of general status competition. Thus, conspicuous spending is not just about visibility, or even the display of great expense; rather it also seems to involve purchasing a type of product that is widely recognized, so that it will invite comparisons with the purchases of others.

Another dimension of conspicuous consumption can be recognized in the examples given by Schor – they are notable for being discretionary and recreational items. Why does Schor focus on objects like designer clothes, TVs, and luxury cars; but not on expensive car repairs or knee braces? Why would discretionary and recreational items carry more status than ones regarded as practical necessities?

One explanation can be found in the work of anthropologist Clifford Geertz. In his work in Bali, Geertz noted that the more a man bet in a game (a cockfight to be exact), the more this individual was publicly declaring a social position within his village (1973).[6] In fact, Geertz claimed that it was precisely because this was a game, i.e. a discretionary and recreational event, that the bettor was freed to stake a claim in the social battle that was being waged by-proxy in the battle of roosters.[7] Apparently, only by spending on a triviality was the bettor freed to signal his status with his consumption.

To illustrate an example in the modern U.S., many people at any given time are wearing casts as a result of surgery or accidents. These products may be widespread, expensive, and even can be customized to present one's particular tastes. While they probably have the power to confer a small amount of cache to the wearer, it seems likely they will provide less status than a designer suit costing the same price. As opposed to purchasing a suit, a customized cast lacks status because paying for a cast is generally seen as a medical necessity rather than as a discretionary choice. As Geertz argued, the less a purchase is discretionary, the less its acquisition reflects one's particular presentation of self in the game of status competition. Furthermore,

the less an item is taken to be a self-conscious presentation, the less we can expect that it will invite the general public to regard it as an intentional claim about one's social position.

Putting these dimensions together, it appears that a conspicuous good has the following properties: 1) It is highly visible, 2) it is capable of demonstrating the expense lavished on it, 3) it comes from a category of expenditure that is widely recognizable, so as to invite comparison with the purchases of others, and 4) it is generally regarded to be a recreational (as opposed to a necessary) purchase.

To some extent, points 3) and 4) are in tension with one another. If a purchase is too recreational (point 4) – i.e. too whimsical, and thus a very strong statement of personal choice – then it may move that purchase outside the realm of comparison with others (point 3). If a purchase is not unique enough, then it will tend to be regarded less as an intentional presentation, thus weakening its power as a status symbol. This paradox of symbolism is common to all forms of aesthetic presentation, as various works in the sociology of art demonstrate (Becker 1982; Peterson 1997).[8]

Certain purchases seem to fit the conspicuous consumption criteria precisely; Schor offers women's makeup as a clear example. It is something that is highly visible, widespread, directly connected to a presentation of self, and it can be fairly expensive (although, ideally, there is a wide array of available price points at which one may position oneself). What's more, makeup has little immediate utilitarian function (in fact, some of its side-effects are disamenties), and thus it is often regarded as a discretionary expense.

Luxury Spending

The title of Robert Frank's Luxury Fever highlights a central concern of his book – namely that Americans are overly concerned with having "only the best" goods and services. But, what makes something a luxury?

In theory, while they share many common features, luxury spending is separate from conspicuous spending. For instance, Frank mentions buying premium chocolate as a luxury expense. This kind of purchase is not very conspicuous; in fact, many people go to lengths to hide this purchase from their peers. What is it that makes expensive chocolate a luxury purchase?

There is no obvious consensus among experts. Marketing research on luxury goods almost universally defines them not by the qualities inherent to these goods, but rather by the people that buy them. Historically, they have defined a good as a luxury expense if it is typically only purchased by wealthy individuals (Mintel 2008). A similarly inductive approach underlies the theory of "inferior" and "normal" goods found in the field of economics (Bishop 2004).

This kind of inductive approach seems to offer the satisfaction of empiricism. However, its lack of theory is ultimately untenable. Along with purchasing more yachts, fur coats, and vacation homes, wealthier individuals also tend to buy more healthcare and insurance. Few would say that these are luxuriant expenditures. What's more, there has recently been a profusion of "everyday luxuries" that defy the traditional vision. These items are purchased across the income spectrum, yet are distinguished by being premium versions of everyday goods. For instance, Starbucks

Coffee is noticeably more expensive than other coffee alternatives, and yet it certainly is not so expensive as to be considered among the ranks of Louis Vuitton and Hermès.

In terms of a specific definition, Frank is quite mum on the subject. Instead of a concrete definition, he makes his points by offering example after example of goods commonly regarded as luxurious, such as Cartier watches and personal water craft. Nonetheless, based on Frank's examples, it seems that the key element of a luxury good is that it is meant to indulge hedonistic desires.

Hedonism is obviously a highly subjective term. At least in theory though, a hedonistic purchase is distinguishable because its intent is to induce pleasure, without producing any direct, practical value in the broader context of one's daily life. A chocolate bar is a luxury because it induces pleasure when consumed, while its empty calories are counter-productive for a healthy diet. Similarly, yachts and Cartier watches are luxuries because they are pleasurable to use, yet they do not provide any direct quotidian value in the broader context of one's practical life.

The Challenges of Identifying Status Goods

According to Schor and Frank, luxury and conspicuous goods share a common root: both are regarded as wasteful purchases we could do without, but which we buy because we are comparing ourselves to others. In luxury spending the comparison group is partially internalized – we consider ourselves to be a certain model of person, and we make purchases that are consistent with our reference points for that model. We feel we need to buy some good because that is "what is bought" by "the kind of people we are"; and in turn, our notion of "the kind of people we are" is influenced by

societal interactions. In conspicuous spending, the comparison group is more externalized – we know we will enter public life wearing certain clothes, driving certain cars, discussing certain trips, etc., and we often pay a premium for demonstrating that the purchases we have assembled about us are worthy of appreciation.

Of course, the simplicity of defining status goods ends with these theoretical definitions. Any attempt to categorize a real-world expenditure quickly demonstrates that there are numerous problems involved in classification.

For instance, makeup may be a clear form of conspicuous spending, but most cases are more difficult. For instance, a vacation can be fairly conspicuous even though one's peers are not able to witness the trip. Pictures on a wall or desk, conversations about past travels, and the cultural capital acquired from travel experiences all have the power to make an invisible purchase "visible" to one's peers. The same can be said about vacation homes and fine-dining, the consumption of which may never be directly witnessed by one's peers.

Similarly, "luxury" is a mercurial subject. Everything has some practical value, so how does one distinguish a non-productive "luxury" from a productive "investment"? Even a yacht, for instance, holds equity and thus serves the utilitarian function of storing wealth. At what point does something cross the threshold from practical and utilitarian, to impractical and hedonistic? How does one compare the "practicality" of one purchase against the practicality of other purchases? For goods that provide some degree of practical value, how does one separate the portion that

constitutes sensibleness, from the portion representing irresponsible status-seeking? As will be seen in future chapters, these questions make operationalizing status spending quite difficult. However, arguments will also be presented to show some ways this project has endeavored to address these challenges.

Defensive Spending

There is another argument based on competitive spending that appears to cross the KU/KA divide. In particular, both Elizabeth Warren and Robert Frank offer a similar kind of explanation for why households are losing wealth. They don't call it the same thing, and yet the line of reasoning is the same in each place it appears. For the purposes of identification, this type of competitive spending might be called "defensive spending." What is defensive spending?

In their descriptions, both authors depict a type of competitive spending motivated by a desire to maintain one's material position in the face of a constantly eroding landscape. This kind of spending is not motivated by a desire to advance one's personal status, or by a desire to indulge one's senses. In both their works, the competitive element is introduced by the same condition: incomes have increased, but the proportionate number of certain important goods has not increased. These important goods offer a "winner-take-all" payback, such that the importance of owning them is comparatively high, relative to the importance of owning other goods.

Frank references an arms race as a good example of this kind of spending. The logic here is clear – in certain situations it is more important for a nation to maintain higher spending on weapons, relative to other nations, than it is for that nation to

maintain comparatively higher spending on other social goods. The potential cost of underspending on an arms race is the complete loss of political autonomy; the potential cost of underspending on something like education is a lessened rate of economic and social growth. In the face of such a situation, one would expect governments to privilege arms spending, because slower advancement is preferable to complete dissolution.

As Frank points out, the folly of this kind of spending is that it is "smart for one, dumb for all." If every nation could act collectively (e.g. by reaching arms agreements), each could devote less to weapons and more to social growth, without any loss of individual safety. They could accomplish this because safety is based largely on the relative amount of one's weapons, compared to other countries. In Frank's terms, this greater "context dependency" is the key element that defines weapons as a "positional good." In the social context of consumers, Frank outlines certain consumer goods that are positional goods, because they meet this criterion of higher context dependency.

Buying a home in a good school district is his primary example. There has not been a proportional increase in good school districts in recent decades, despite increases in average household income. Furthermore, getting one's child in a good district approximates a winner-takes-all situation. Unlike other expenditures, higher education is seen as tantamount to the success of one's children, and for most parents the advancement of their child is an absolute – there is no possibility of considering a tradeoff which involves their child's lessened success. With rising incomes, a limited

supply, and an absolute definition of success, good school districts are similar to an arms race – there is never-ending pressure for parents to spend more on good schools, because they see it as critical that they do not come in second place.

Warren's version of defensive spending has already been touched upon to some extent. In her argument, the increased income generated by women entering the workforce explains why society has greater means. Like Frank, Warren also acknowledges that certain positional goods remain proportionately limited, hence the competition which drives up the price of these goods. In her account, the winner-take-all nature of our society has been further heightened by women's workforce participation. When living standards were lower, a non-working woman could temporarily join the workforce to help out the family. Now that two incomes are the norm, women are obliged to be permanent workers, leaving no one as a backup if something bad should happen. This lack of a safety net heightens the risk for those who cannot keep up with the pace of societal spending.

The Challenges of Identifying Defensive Goods

In contrast to status spending, both Frank and Warren tend to discuss defensive spending in virtuous terms. The social outcomes of this competition are described as wasteful, but for the individual defensive spender the motivation is admirable: a household is spending to avoid the erosion of their living standard, or their children's future living standard.

In essence then, defensive spending is based on the logic of "keeping afloat." However, where other KA arguments offer a circumstance trying to pull only certain

individuals underwater (e.g. people of color, single mothers, etc.), defensive spending posits a society-wide current threatening all members, unless they struggle to stay above the constantly rising swell.

As with luxury and conspicuous spending, properly classifying defensive goods is a formidable task. For example, how does one know that any given house was purchased out of the altruistic desire to help one's children get into a better school? How would this appear any different from parents who bought the same house out of a selfish desire to improve their personal status, or because they felt entitled to certain pleasurable amenities?

The problem is further complicated since, to a certain extent, even symbolic purchases might be categorized as defensive spending. An expensive designer suit may seem wholly discretionary; but what if it was purchased for a job interview ultimately meant to pay for a child's private school? Or what if the suit was bought out of a desire for status advancement *and* to help one's children? The problem of multiple desires is emblemized in the favorite defensive spending example of both Warren and Frank: buying a home in a good school district. The reasons why a family might buy a home can include investment, need for space (e.g. taking in an aging grandparent), safety, defensive spending, conspicuous spending, and luxury spending. How can one parse out the degree that each of these motivations influenced the purchasing of a particular house?

Ultimately, it's easier to see examples of spending that are *not* defensive, than it is to pick out clear examples for what is defensive. Spending that is particularly

recreational (e.g. buying a boat) seems less likely to be connected with the struggle to maintain the material position of one's household. Also, the case for defensive spending is harder among smaller discretionary purchases that are highly substitutable. For instance, it seems hard to argue that households *must* go to the movies, eat out, or go to sports events in order to secure their financial position, especially since they can rent movies, eat at home, and watch events on television.

Using survey data, it is difficult to see decisive indicators of defensive spending (in fact, it would be hard to see them with qualitative methods). As such, this project is better served examining the other kinds of competitive spending that can be more clearly examined. In the empirical work following in the chapters ahead, care will be taken to avoid types of spending for which defensive spending might be a considerable factor. This includes the purchase of homes, which involve so many possible motives.

CONCLUSION

In this chapter we've seen the variety of mechanisms offered by scholars to explain household wealth accumulation. Theories based on the logic of social pressures have offered two kinds of explanations, based roughly in the camps of keeping up (KU) and keeping afloat (KA). The field of economics has offered mechanisms based on microeconomic maneuvering, as households strive to intelligently manage their finances over their lifetime. Additionally, microeconomic theory reminds us that factors other than spending and income are important determinants of wealth accumulation. All of these mechanisms deserve study to

answer our fundamental question: what contributes most to households' wealth accumulation?

The chart below summarizes the many paths that lead to reduced wealth accumulation. At the most proximate causal level, wealth reduction is directly related to overspending (i.e. higher consumption relative to income), capital losses (reductions in the market value of owned assets), interest, and to various miscellaneous factors like depreciation of assets over time, the gifting of assets to other households, and mismanagement of resources (e.g. losing track of a 401k with a previous employer).

Overspending is the most complex of these factors. The direct negative effect of overspending is related to one of three things: either minimized saving, assuming loans, or dis-saving – yet the indirect causes for overspending are numerous. Overspending can result from social pressures like status spending, other social impositions like losing one's job, or it can be a rational strategy pursued by maximizing households (e.g. a household "smoothing" through a low period of income when they know a higher period is coming soon).

Even these mechanisms are divisible into recognizable sub-mechanisms. For instance, disadvantaged circumstances can take the form of persistent reductions in pay that reduce your income over time (as in racial discrimination), or they can take the form of an acute liquidity crisis, in which a triggering event (e.g. job loss or health emergency) over-taxes the liquid cash reserves of a household.

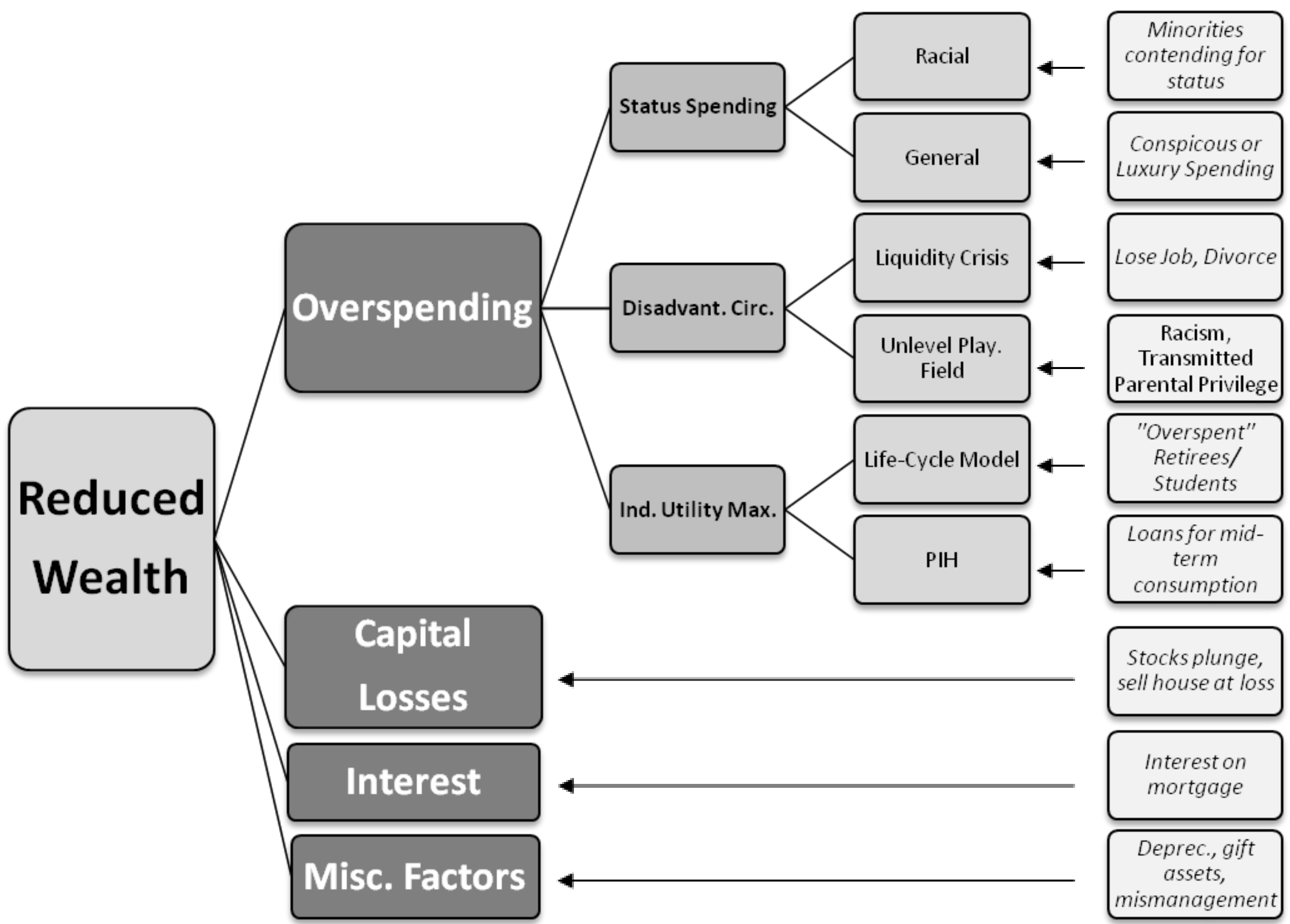

Figure 2.1 Mechanisms for Reduced Household Wealth

How do we sort this bewildering world of possibilities? The work of the next chapters will show how data from the *Consumer Expenditure Survey* can be assembled to measure households' changes in wealth. Furthermore, in-depth explanations will be offered to show how the complex concepts in this chapter (e.g. luxury spending) can be operationalized using survey data. By applying these operationalizations in various regressions and other statistical tests, we will gain a first-ever glimpse into the relative contribution of these factors to Americans' gains and losses in wealth.

CHAPTER 3: THE DATA

In the corpus of sociology, it is infrequent for the dataset in a quantitative study to merit a chapter unto itself. In many quantitative studies, the data come from well-known sources used in numerous other works. In the present study, the situation is a bit different.

For one, the data for this project – the *Consumer Expenditure Survey* – is not widely used in sociology, or indeed, in many other disciplines. While certain economists and policy analysts have used the data extensively, they generally are concentrated in narrow enterprises – such as the debate surrounding the federal definition of poverty (Jorgenson 1998; Bauman 2003; Johnson 2004), or the paradox of large gaps in income and spending at the extremes of the income spectrum (De Juan and Seater 1999; Sabelhaus and Groen 2000). Thus, part of this chapter will focus on an introduction to a remarkably useful, but under-utilized dataset, in order to introduce the features of this valuable resource.

Another reason why the *Consumer Expenditure Survey* requires some elaboration is that this project is using the data in a novel and previously untested fashion. Only recently have the data been used to track changes in wealth. As such, another task of this chapter is to establish the validity of the dataset by comparing it with a well-regarded survey of household wealth.

Because understanding wealth accumulation has appeal for so many researchers, the final task of this chapter will be use this new resource to offer basic statistics about the distribution of annual wealth gains and losses in the United States.

Additionally, because annual changes in wealth are virtually unstudied, another task of this chapter is to compare how annual estimates compare with previous estimates of wealth accumulation, to see how annual changes in wealth fit with knowledge from other sources.

WHAT IS THE CONSUMER EXPENDITURE SURVEY?

The *Consumer Expenditure Survey* (henceforth "CE"), is a large rotating survey of American consumer balance sheets, collected by the Bureau of Labor Statistics, that serves as a critical input for measuring inflation. The official purpose of the survey is to revise the "market basket" used to calculate the *Consumer Price Index*, every two years. Unofficially, the survey is a tremendous resource for economists, economic sociologists, policy analysts, and members of private industry, because of its strikingly detailed and comprehensive coverage of households' spending and finances.

While nominally one survey, the CE collects microdata in two formats: a two-week diary survey, and a one-year interview survey. The diary survey asks homes to record expenditures made by individuals in a household during a two-week period. They record these expenditures in a special notebook dropped off by a U.S. Census field representative each week. This survey offers a remarkably complete picture of household spending; indicating the type, cost, and time of all purchases.

The interview survey asks a separate set of respondents to report aggregate expenditures over five, three-month periods. Because this process is repeated five times, it covers a period spanning 15 months. Only the final four periods of

transactions are reported in the published data (i.e. the final 12 months), because the first interview is dropped (the first interview is only used to contact respondents, and to establish a baseline for future transactions). Thus, respondents completing all five interviews of the survey have an entire year of their financial transactions reported in the published survey.

Both surveys are collected on a rotating basis; i.e. there is a constant stream of new respondents entering the survey as other respondents drop out.[9] The samples from each survey are discrete, with no overlap in participating households. Both surveys are collected for the BLS by the U.S. Census, and meticulous steps are taken to ensure their representativeness of the U.S. population.

Unlike many economic surveys, the CE tracks the expenditures of Consumer Units (CUs). CUs are defined by:

(1) all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements;
(2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or
(3) two or more persons living together who use their income to make joint expenditures.[10]

CUs align in many ways with the common conception of a household; however, a household can include more than one consumer unit, such as in the case of roommates sharing an apartment. Because *household* refers to a dwelling, the household in this case is the apartment, which comprises more than on consumer unit. For the sake of simplicity, CUs will be referred to as “households” for the remainder of this article, despite the limited number of cases where this designation is technically incorrect.

In terms of categorical coverage, the survey has strikingly detailed information on expenditures. It covers everyday expenditures like gasoline purchases; as well as infrequent expenditures such as clocks, decorative pillows, plastic dinnerware, fresh flowers, sewing patterns, aircraft rental, etc. In total, there are over 620 different individual expenditure types tracked by the diary and interview surveys.

The CE also has comprehensive coverage of liabilities, covering both the balance and change in balance for most types of debt. Unfortunately, the CE's coverage of assets is slightly less comprehensive. Only the balances of certain assets are tracked: the balance of checking and savings accounts, and the value of owned securities, U.S. bonds, and money owed for personal loans. The survey does not track the balance of whole life insurance policies, annuities and trusts, quasi-liquid retirement accounts (e.g. pensions, IRAs/Keoghs, etc.), or business investments. The survey does track the current market value of real estate (e.g. primary residence, vacation properties, investment properties, etc.); however, the current market value is self-reported, and there are clearly issues with respondents correctly reporting the appraisal value of their properties. What's more, the survey doesn't cover the value of other non-liquid assets like vehicles and collectibles (e.g. artwork, coins, etc.).

Despite having limited coverage of asset value, the CE does have comprehensive coverage for changes in asset value, over the period of a year. For instance, the survey does not record the total worth of business assets owned by a household; however, it does track annual contributions and withdrawals to business assets. Using this data, one can examine how much value was contributed or

withdrawn over the period of a year; even though one does not know the total worth of business assets at the start of the year. Thus, the CE gives researchers a broad perspective on households' annual change in asset and liability values; even when they have a more limited view of a household's present net worth.

WHY IS THE CE RIGHT FOR THIS PROJECT?

The overall goal of this research is to connect households' life circumstances with their change in wealth. Of nearly equal importance is measuring the extent to which wealth accumulation is affected by keeping up vs. keeping afloat. Why use the CE to tackle these goals? Why use quantitative data at all?

One always faces a tradeoff when choosing between qualitative or survey data. Obviously, ethnographic and qualitative methods provide great depth of understanding about any social phenomenon. The current case, which partly concerns the issue of status spending, certainly lends itself to various qualitative methods of study. In fact, some might think qualitative methods are the only way one can gain insight into a topic involving so many internal motivations. As will be discussed in a following chapter, there are limitations to quantitative data that lend some credence to these concerns. However, with effort many of these concerns have been addressed.

The depth of understanding that follows from qualitative methods comes at a well-known price: specifically, observing human intricacies at the interpersonal level invariably results in a diminished understanding of predominance (Ragin 2000). Because of their depth, qualitative methods are excellent at cataloguing the *kinds* of social phenomena that exist in the world. However, the rigors of coding, interviewing,

and personally observing human behavior naturally place limits on the number of participants involved in a study, and on the number of localities that are involved. Thus, these methods generally have a harder time addressing the *frequency and distribution* of social phenomena. One may document a detailed form of social interaction in a specific social context; but without survey data, how can one establish that this interaction occurs elsewhere, or the specific frequency with which it occurs across wide swaths of space and time?

Given the tradeoffs endemic to quantitative and qualitative methods, survey data are appropriate for this study. The question at hand – is status spending a major cause of wealth loss? – is a question primarily of predominance. The primary aim of this research is not to establish *whether* status spending is a factor in wealth accumulation; but rather, *to what extent* status spending affects wealth accumulation. Thus, survey data are vital for establishing the extent to which various social factors affect households' wealth, broadly. While interviews might reveal the inmost complexities of households' transactions, the CE survey data provide the basis for a detailed, nationally representative analysis of how households accumulate wealth in the United States today.

Why this Dataset?

The CE tracks a wide range of expenditures and wealth categories, but it is certainly not the only dataset to do so. Why is the CE the best survey for this project?

It is surprisingly hard to find data on household wealth or household spending. In this project, where wealth data needs to be cross-referenced against spending, the

possibilities are slim indeed. In fact, there are only four non-commercial sources of data that cover both spending and wealth in the same survey: the CE, the Survey of Consumer Finances (SCF), the Panel Study of Income Dynamics (PSID), and the National Longitudinal Study of Youth 1979 (NLSY79). Each of these surveys has strengths and limitations, but ultimately, the CE is the only one that can reasonably meet the task at hand.

The SCF is often considered the gold-standard for household wealth measurement. Conducted every three years by the Federal Reserve, this survey takes painstaking care to ensure its large sample of households accurately reports all the components of their net worth. It also oversamples wealthy households, and then readjusts their population weights, in order to ensure this little-observed group is properly measured. The problem with using the SCF for this project is that it is a one-time estimate of net worth. While one gains a striking perspective of households' wealth at one point in time, there is no possibility of measuring change in wealth. Hence, one cannot truly test how various financial actions in the past year affected a household's present situation. What's more, the SCF has very limited information on spending. Thus, it would be impossible to measure households' consumption patterns in fine-grained detail.

Both the PSID and NLSY79 are panel studies, which include some information on spending and some information on wealth. Thus, these surveys overcome the SCF's limitation of not capturing changes in wealth. In fact, the PSID and NLSY79 are both long-term panels, so change in wealth is captured over much of a

respondent's lifetime. The primary issue with these surveys is that they do not have enough data on spending and wealth to be comprehensive. While the NLSY79 does have a surprisingly complete picture of households' net worth, it only contains one variable measuring spending: overall spending on food. The PSID contains more variables on spending, but only in some years does it have a comprehensive picture of a household's net worth. Without a consistent measure of household spending connected with a consistent measure of a household's net worth, the value of the PSID for studying the effects of spending on wealth becomes quite limited.

The CE overcomes these limitations. It is a panel study (albeit a very short panel), because it shows household spending and change in wealth occurring over the period of one year. The CE's measurement of both spending and wealth are very comprehensive. A researcher has a great amount of detail with which to tease apart the connections between certain types of spending and certain types of wealth changes. What's more, the annual time window is short enough to capture the immediate effects of various life circumstances, such as losing a job or getting divorced.

All of this is not to say that the CE lacks limitations. The CE's annual time window is valuable for measuring acute life circumstances, but it does not capture a household's long-term financial situation. This lack of long-term information can be mitigated by examining certain indicators; however, the CE does not have the perspective offered by longer-term panel studies.

What's more, there are slight deviations from a truly representative population in the CE, due to attrition. Because a household's full participation in the CE lasts over a year, many households do not complete the full course of the survey. To see a household's annual change in wealth, only full-reporting households can be used. What's more, attritors in the survey have characteristics with non-random differences from the total sample – most notably, renters are far more likely to attrit than homeowners. These differences are small (see Appendix A), however, they might affect results and should be borne in mind.

HOW IS CHANGE IN NET WORTH CALCULATED?

To reveal the overall change in a household's net wealth, this project summed the total change in assets, and the total change in liabilities, for individual households. The asset and liability categories tracked by the project are listed in Table 3.1.

But, stepping back for a moment, it is generally valuable to examine the assumptions behind taken-for-granted measures. Although measuring wealth may seem straightforward, the process is actually fraught with choices. This is because what characterizes wealth is a surprisingly open question. How does one know that all types of wealth have been covered? How does one handle financial categories ambiguously positioned on the verge between wealth and income?

Traditionally, wealth is defined by the accounting distinction between "stocks" and "flows" (Fisher 1896). This distinction neatly divides money into a form that is "flowing" in and out of one's accounts (i.e. earnings and consumption), and money that is "stored" in one's saving or investment accounts (i.e. wealth).

Table 3.1 CE Coverage of Assets and Debts

CE COVERAGE OF ASSETS	
Total Δ in Checking, Money Market, & Call accounts[1]	COMPCKGX
Total Δ in Certificates of Deposit & Savings Accounts[1]	COMPSAVX
Total Δ in Directly held pooled investment funds (all types except money market funds), Directly held stocks, Directly held bonds (all types, except bond funds or savings bonds) [1]	COMPSECX
Total Δ in U.S. Savings bonds[1]	COMPBNDX
Negative Δ in household's cash value of whole life insurance and/or annuities[4]	SETLINSX
Positive Δ in household's cash value of whole life insurance[4]	POLICYYB
Negative Δ in household's government retirement fund, account-type pensions on current job, and individual retirement accounts/Keoghs[4]	FINDRETX
Positive Δ in household's Government Retirement fund[3]	FGOVRETM
Positive Δ in account-type pensions on current job[3]	FPRIPENM
Positive Δ in individual retirement accounts/Keoghs[4]	FINDRETX
Total Δ in Other misc. financial assets[1]	COMPOWDX
Positive Δ in business assets[4]	BSINVSTX
Negative Δ in business assets[4]	WDBSASTX
Negative Δ in household's Social Security value and railroad retirement fund[3]	FRRETIRM
Positive Δ in household's Social Security value[3]	FJSSDEDM
Disposed of Vehicles[2]	EXPN – OVC: DISPX
Disposed of Homes[2]	EXPN – OPD: SALEX
Acquired Vehicles[2]	EXPN – OVB: NETPURX
Acquired Homes[2]	EXPN – OPB: OWN_PURX
CE COVERAGE OF DEBTS	
Primary Residence Mortgages[5]	EXPN – MOR: QBLNCM1X, QBLNCM2X, QBLNCM3X
Home Equity Loans Secured by Primary Residence[5]	EXPN – HEL: QBLNCM1G, QBLNCM2G, QBLNCM3G

Table Continued…

CE COVERAGE OF DEBTS	
Lines of Credit Secured by Primary Residence[3]	EXPN – OPH: JLCPRINX, JINTPDX
Vehicle Loans[5]	EXPN – OVB: QBALNM1X, QBALNM2X, QBALNM3X
Credit (credit cards, student loans, etc.)[1]	EXPN – FNA: CREDITR5=100, …

METHOD OF DATA COLLECTION

[1] Difference between households' reported value in 1st interview and 4th interview (one year following).

[2] Value of asset acquired/disposed of, at time of purchase/sale, as reported in an interview following the purchase/sale.

[3] BLS-derived annualized estimate, based on a reported value or a reported one-month actual contribution.

[4] Household's reported annual estimate (including lump-sum payments/withdrawals) at the time of a household's final interview.

[5] Difference between first and final reported debt principle, as tracked each month of a household's survey year.

The metaphor is comparable to water flowing through a house. There is a flow of water coming in through the city mains, and out through waste lines. Separately, there are vessels (water heaters, freezers, etc.) in which water can be stored for longer periods, in either a liquid or a solid state. The water moving in and out is measured as a flow, where the water stored in vessels is measured as a stock. Similarly, liquid cash flowing in and out of one's accounts is considered a flow, and one's stockpile of liquid, semi-liquid, and non-liquid assets are considered stocks. Liabilities are counted against one's stocks (not one's flows), as they represent future obligations that diminish the net value of one's long-term reserves.

While the distinction between stock and flow has a nice metaphorical symmetry, human economic activity rarely fits neatly into accountants' checkboxes. Stocks are supposedly divided from flows because of their semi-permanency. But how permanent must something be to count as wealth? A refrigerator is a durable good that holds some value (although it rapidly depreciates). Rarely, however, is it counted as wealth. The exercise can be taken *ad absurdum* – even the food stored in one's refrigerator is technically a stock possessing value, despite its exceedingly short-term storage. Ultimately, one must draw a line.

Another example of an ambiguous wealth category is found in social security. *Prima facie*, social security is a mandatory tax deducted from earnings, and a government benefit that is transferred to eligible recipients. Many Americans will receive more from social security than they contributed. None of this sounds like personal wealth.

However, Defined Benefit Pension Plans (DBPPs) are universally included in measures of net wealth. In these plans, what you contribute is not strictly related to what you draw out in retirement (hence "defined benefit" as opposed to "defined contribution"). These programs are a lot like social security in that the contributions of a group are pooled, and then redistributed, and thus some people may ultimately receive more than they contributed (especially if they live longer than the average pensioner).

Another complication for including/excluding social security is part of a larger issue in government accounting. Because government accounting of wealth was

influenced heavily by orthodox neo-classical theory, most surveys do not account for the market value of public goods (Espeland 1998; Bernstein 2001; Fourcade 2011). For instance, what part of the park down the street should count towards my wealth stockpile? I can use my rights to the public park to hold a picnic "free of charge," much like I can use my own property. Thus, I ultimately have the use of it in a limited fashion that grants me value, even though this value is never counted as a form of net wealth. The sheer fact that government accounting has no framework for assessing social goods is not, by fiat, a good reason to exclude the value of those goods from net wealth. As a widely-used and influential public good, social security is a particularly difficult instance of this valuation problem.

Obviously it is the looseness of the connection between contribution and withdrawal that makes social security a difficult case. However, it should be said that neither those who might favor including it as a form of net wealth, nor those who favor excluding it, have a definitive argument.

On the one hand, comparing social security to DBPPs may seem a stretch, especially since DBPPs are voluntary, and social security is mandatory. Also, the contribution/benefits mismatch is often the result of living longer than the average, rather than the result of national politics. On the other hand, DBPPs demonstrate that the components of wealth are not necessarily defined by a strict symmetry between contribution and benefits. Also, for many Americans, contributions to social security will be the largest withdrawal from their earnings that is dedicated to funding their retirement. Many Americans will also count on social security as a large part (or even

all) of their retirement income. Because of its ambiguous relationship with personal wealth, in the chapters that follow, analyses will be run both including and excluding social security contributions/withdrawals, to see the effects of their inclusion as a form of net wealth.

Leaving aside the thorny issue of social security, the other categories tracked by this project follow a fairly conventional definition of personal wealth. Most of the common financial accounts and liabilities are tracked (e.g. mortgages, bank accounts, etc.), and so are durable goods in the form of vehicles and properties. By following this conventional definition, the results of this project are more directly commensurate with prior wealth research. In fact, the wealth categories tracked in the CE (excluding social security) are almost directly comparable to the wealth components found in the well-regarded Survey of Consumer Finances (SCF). Thus, at least in terms of categories tracked, we can be certain that the CE is covering the majority of wealth components, as they are traditionally defined.

How do we know the data are reliable?

The CE could potentially serve as a great tool for studying households' wealth. However, how do we know that a survey primarily designed for tracking spending is any good at tracking wealth?

Despite its broad coverage of wealth categories, only recently have researchers begun validating the CE's wealth estimates against estimates from other well-established surveys. Most notable is the pioneering work of Johnson and Li, comparing CE liability data against the SCF. Comparing estimates between the two

surveys, the authors find that "household debt balances and payments are measured reasonably well in the CE," and that "CE data may be used to examine household debt and its relation to household economic decisions." The work of Johnson and Li breaks new ground by confirming the CE's ability to track liabilities at the household level.

Johnson and Li chose to compare liability estimates between the surveys, because (as previously mentioned) the CE has more comprehensive coverage of liability balances, than it does for the current value of assets. Moving forward, it is of considerable interest to know how well the CE tracks households' overall net wealth (i.e. both assets and liabilities). To meet this goal, the present research examines the potential of the CE for measuring annual changes in household net wealth, by comparing it to the Federal Reserve Board's Flow of Funds Accounts (FOFAs) (Board of Governors of the Federal Reserve System 2011).

The FOFAs are the most widely-used aggregate data on household balance sheets, and they are the only other public data source tracking the personal net wealth of American households on a rotating basis (Antoniewicz 2000). Like the CE, data for the FOFAs are collected on a perpetual basis (as opposed to say, the SCF, which is only administered every three years). Unlike the CE, the FOFAs are measured at the aggregate, national level. Data are collected from a variety of sources, including banks and businesses, and change in personal wealth is estimated by reconciling data on aggregate spending and investments.

To compare personal wealth estimates between the CE and FOFAs, we can compare the year-to-year change in aggregate national wealth for nine, six-month periods encompassing the period 2004 to 2009. Using six-month periods ensures adequate sample size in the CE (2,385 cases per period, on average). The timeframe for each six-month period spans either October to March, or April to September.

These particular periods are chosen to correspond with the CE survey design. In the CE, respondents report transactions from the three months pre-dating the time of their interview. For instance, CUs entering during the first half of 2004 (i.e. January 2004 to June 2004) are actually reporting expenditures from October 2003 to March 2004. CE data are released by the calendar year in which respondents entered the survey; not according to the timeframe of respondents' expenditures. Therefore, in order to use the latest available data, it becomes necessary to use time periods offset three months back from the usual calendar year.

Households starting the survey in 2005 are excluded from the comparison, because a change in the CE sample frame unfortunately makes this time period unusable. In the CE, change in wealth is calculated by summing the annual change in wealth reported by households. Thus, to calculate the aggregate change in wealth between one period, and the same period one year later, one-year change in wealth is summed for all households reporting in the latter period. To find the change in wealth occurring between the period staring in Oct. 2007, and the period starting in Oct. 2008, one sums the annual change in wealth reported by households in the Oct. 2008 period. Put another way: suppose there is one unique household providing data in

each of the six months (e.g. October to March) so that the sample size is six observations. By coincidence, each household reports a net increase in wealth of $5. Therefore, the total increase in net wealth over the period would be $30 – $5 for the October-to-October increase, $5 for the November-to-November increase, and so forth.

In the FOFAs, change in wealth is calculated by averaging aggregate personal net wealth within each of the six-month periods. Then each period average is subtracted from its counterpart in the following year. For instance, across Oct. 2003 to March 2004, the FOFAs estimate that Americans' possessed an average of 45.8 trillion dollars. One year later, the FOFAs estimate that Americans' possessed an average net worth of 51.4 trillion dollars. Thus, there was a gain of approximately 5.6 trillion dollars in personal net wealth, between the two periods.

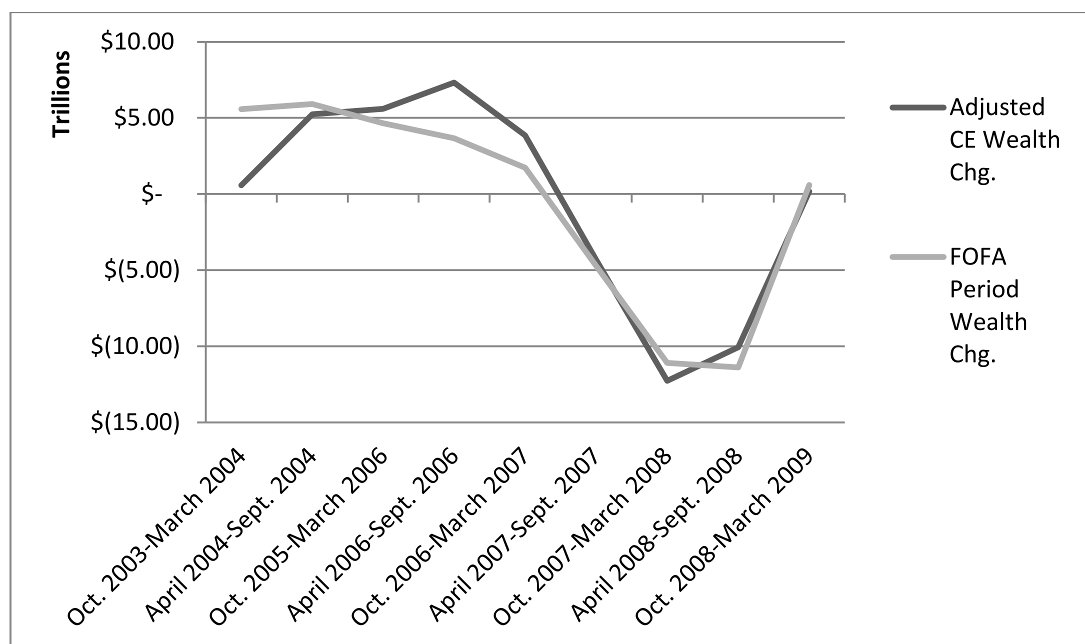

Figure 3.1 Comparison of Movements in CE and FOFAs

Comparing estimates for change in aggregate net wealth (Figure 3.1), movements in the FOFAs and the CE are found to have a correlation of 0.94 ($p = 0.0002$). This suggests that movements in CE wealth estimates are strongly consistent with movements in the FOFAs. It should be noted, however, that the scale of changes in the CE are not comparable to the FOFAs. This is to be expected, given that CE population weights are not calibrated to represent the correct volume of personal net wealth at the aggregate, national level.

In Figure 3.1, CE wealth changes are adjusted upward to more easily compare movements between the surveys. This adjustment is a simple linear transformation: each unadjusted CE value is multiplied by 560,000. This adjustment may seem quite large; however, the CE estimates are unweighted, and thus to match the FOFAs they need to be adjusted by a large degree.

The strong correlation between the CE and FOFAs makes clear that CE data accurately represent changes in aggregate personal wealth. Taken in conjunction with the work of Johnson and Li on liabilities, this further suggests that the CE is realistically tracking changes in asset levels, and thus it can be used to investigate household-level changes in net wealth. The CE should not be used, however, to estimate the total volume of personal net wealth at the national level.

HOW MANY GAINED? BY HOW MUCH?

The ultimate goal of this project is to study the causal roots of wealth accumulation, and in particular the extent that status spending affects wealth. However, because the *Consumer Expenditure Survey* (CE) provides such a new way

of looking at wealth, we would benefit greatly by first gaining a foundational picture of annual household wealth accumulation. The results that follow show the percent of Americans that gained wealth, and the extent of their gains.

How Many Gained?

Based on annual estimates from the CE, an average of 56% of Americans gained wealth, during 2004-2009. Conversely, an average of 43% of Americans reported losing their wealth during the same period (Table 3.2).

Table 3.2 Percentage of Households Gaining Wealth

	Annual ΔHNW (CE 2004-2009)	
	Total Pop.	*Mid-Aged Pop.*
Positive	56.0%	77.9%
Zero	1.1%	1.5%
Negative	42.9%	20.6%

Looking at the second column in Table 3.2 shows that households in the middle of the age spectrum had half as many wealth-losing households as the population taken as a whole. This finding is in accord with the expectations of the life-cycle hypothesis: younger and older households tend have a higher rate of wealth loss than the mid-aged population.

These results represent a first look at annual changes in wealth. However, as was mentioned earlier in this chapter, the definition of wealth is open to contestation. In particular, contributions and withdrawals to social security represent a conundrum. In short, the problem with social security is that it mainly functions as a public

retirement fund, which is loosely connected to a person's lifetime contributions. In a certain sense, social security is a quasi-form of personal wealth, because for many individuals it represents a significant amount of contributions over their lifetime, and a significant source of income in retirement. In another sense though, social security is not truly "owned" like other forms of personal wealth.

In the table above, estimates of change in wealth include contributions and withdrawals to social security. This differs from the standard approach of most economists, who tend to exclude these contributions and withdrawals from their definition of net worth. To address the social security conundrum, it is valuable to see how estimates of change in wealth differ when social security contributions and withdrawals are excluded. The following table (Table 3.3) includes estimates from the proceeding table, as well as those found when social security is excluded.

Table 3.3 Percentage of Households Gaining Wealth when S.S. is Included vs. Excluded

	% OF U.S. HOUSEHOLDS			
	Social Security Included		**Social Security Excluded**	
	Total Pop.	*Mid-Aged Pop.*	*Total Pop.*	*Mid-Aged Pop.*
Positive	56.0%	77.9%	53.1%	64.9%
Zero	1.1%	1.5%	5.7%	1.8%
Negative	42.9%	20.6%	41.2%	33.2%

From Table 3.3 three things are evident. First, excluding social security contributions and withdrawals slightly reduces estimates of household gains among the total population of U.S. households (56% gaining vs. 53% gaining). Second, estimates of

wealth gains are more divergent in the mid-aged population, when social security is included, versus excluded (78% gaining vs. 65% gaining). This is to be expected, given that 62 is youngest age at which a person can take social security benefits, and thus almost all mid-aged households are limited to making contributions to social security, and not withdrawals.[11] Hence, excluding social security can only lower the recorded "saving" these households accomplish during a given year, not increase it. This naturally results in more households designated as having lost wealth. In fact, for 13% of households, discounting their contribution to social security leaves them no longer in the category of "gaining."

Finally, the third notable finding from Table 3.3 is that the percentage of households reporting zero gain in wealth is much higher when S.S. is excluded. This suggests that social security contributions and withdrawals are the only form of reported change in wealth for 4.6% of the total population (1.1% zero-change vs. 5.7% zero-change).

Combining these observations, it is apparent that excluding social security has different effects when considering the total population vs. the mid-aged population. For the total population, the main effect of excluding social security is that it moves more households into the category of having zero change in net wealth. When social security is excluded, there are both fewer wealth-gaining and fewer wealth-losing households estimated in the general U.S. population (although there is a slightly greater reduction in wealth-gaining households).

Because of the age restriction on withdrawals from social security, excluding it has an imbalanced effect on households in the middle of the age spectrum. Namely, when social security is excluded from the definition of net wealth, the main effect on mid-aged households is to move a large portion (12.6%) from the wealth-gaining to the wealth-losing category. Because the mid-aged population forms the sample for the causal models in Chapter 5, the inclusion vs. exclusion of social security might have important consequences for the coefficients in these models.

How much did they Gain?

Looking at how many Americans lose wealth is instructive, but it gives no sense of the extremes to which households are gaining or losing wealth. Table 3.4 details the quartile values for households' change in net wealth, among the mid-aged sub-sample, when contributions and withdrawals to social security are included.

Table 3.4 Change in Net Wealth of Various Households in the Mid-aged Sub-sample (S.S. Included)

Quartiles	Total Sample	within Wealth Δ Status		within Owner Status		
		Lost	Gained	Non-Owners	Home-owners	Securities Owners
25	$629	-$28,886	$3,669	$0	$363	$326
50	$5,507	-$9,282	$8,496	$2,330	$7,148	$18,139
75	$14,261	-$3,237	$18,140	$5,548	$16,129	$42,947

There are two primary results evident from Table 3.4. First, many households in the U.S. have only moderate gains in net wealth per year. In fact, among wealth-gaining households, one quarter gained less than $3,669 per year. Second, there are

stark differences in wealth gains between the ownership groups. Overall, non-owners have only small gains in net wealth. The 75th percentile for this group only gains about as much wealth as the does the median household in the general population. On the other side of the spectrum, securities owners have a median gain over three times larger than the population median. As would be expected, owning certain assets has important consequences for gaining or losing wealth.

These results reveal the extremes of gains and losses experienced by American households. Again though, the issue of social security is important. How does excluding social security contributions and withdrawals affect estimates of wealth gains and losses?

Table 3.5 Change in Net Wealth of Various Households in the Mid-aged Sub-sample (S.S. Exluded)

Quartiles	Total Sample	within Wealth Δ Status[1]		within Owner Status		
		Lost	Gained	Non-Owners	Home-owners	Securities Owners
25	-$1,505	-$33,786	$748	-$650	-$2,384	$-4,584
50	$2,103	-$13,418	$4,451	$275	$3,467	$11,681
75	$9,176	-$6,150	$12,598	$3,017	$10,898	$35,587

1 Based on the population of wealth-losing and wealth-gaining households when S.S. is included, in order to make the table comparable with the previous table.

Comparing Tables 3.4 and 3.5, one sees that social security has a large effect on estimates of change in wealth. Across the board, the results in Table 3.5 are lower than those in Table 3.4 – often by thousands of dollars. As was mentioned previously, the effect of excluding social security from the mid-aged group will naturally result in lessened estimates of wealth gains. Individuals less than 62 can only contribute to

social security (not withdraw from it), and hence removing these contributions consequently results in lower estimates of “saving.”

Include Social Security, or Exclude it?

It would be convenient if contributions and withdrawals to social security had minimal effect on estimates of change in household wealth. However, as is shown in the tables above, this is not the case – these contributions and withdrawals make a sizable difference when estimating a household’s gains or losses. This is especially true of the mid-aged population, which is the special focus of causal analysis in the next chapter.

Which number should be presented as the best representation of change in wealth? It depends, as always, on what one hopes to measure. In many cases, it makes sense to include social security contributions and withdrawals as a form of saving and dis-saving. For instance, consider the ramifications of excluding social security for the present research.

For many low-income households, social security will be the great majority of their retirement revenue. If we exclude social security as a form of wealth, then we must regard social security payments as a form of unearned income. If we regard social security as income, then for households where social security is the entirety of their retirement revenue, we’re going to see any difference between this income and their spending largely as a form of saving.[12] However, for households primarily spending down private retirement accounts, we will see their spending largely as a form of wealth loss. It’s easy to see how, in certain cases, it would not make sense to

consider spending down private wealth reserves as a form of wealth loss, when spending down public wealth reserves is considered as a form of income.

Cases where it makes less sense to include social security are those involving relative financial power in the market. Social security contributions do not contribute any buying power or financial leverage. They cannot be invested or traded. Hence, they don't confer many of the powers that wealth can grant (e.g. the ability to generate interest income without work, the ability to confer political and social influence, etc.). One cannot, for instance, liquidate one's social security contributions in order to spend them. Other forms of wealth may come with penalties for liquidation, but social security contributions simply cannot be acquired until one reaches the appropriate age. Similarly, one cannot list social security contributions as an asset against which one might take a loan. Thus, if one is concerned with a person's financial power, relative to others, it makes less sense to include their social security contributions, since these contributions cannot be invested or used to gain leverage in a marketplace in the same way that other forms of wealth can.

For the purposes of this project, there have been times when estimates were presented both including and excluding social security. However, the following tables will favor the exclusion of social security in estimates, for several reasons. For one, the main question of the remaining chapters is whether American households favor status spending so greatly, that they have lost rational concern for their future financial well-being. Social security contributions are obligatory, and thus are tangential to the question of how status envy affects a household's financial management. It can be

argued that social security is a positive contribution to one's well-being, despite its obligatory nature. Still, the more theoretically interesting question of this project is not whether individuals contribute to their well-being because it is imposed upon them to do so; but rather the extent that status spending affects the management of those types of wealth over which individuals enjoy full and final control. Another main reason social security contributions will be disfavored is that the remaining tables reference the mid-aged population. As was just mentioned, the inclusion of social security has an imbalanced effect on these households. Finally, the last reason why social security will be excluded is simply that this is the measure of wealth which accords with other surveys, which is the topic of the next section.

How do these Estimates Compare with Other Sources?

The following table presents CE estimates of annual wealth change (excluding S.S. contributions and withdrawals), alongside estimates of life-to-date net worth from the 2004 SCF.

Table 3.6 Percentage of Households Losing Wealth

	% OF U.S. HOUSEHOLDS		
	Annual ΔHNW (CE 2004-2009)		**Net Worth (SCF 2007)**
	Total Pop.	*Mid-Aged Pop.*	*Total Pop.*
Positive	53.1%	64.9%	90.3%
Zero to Negative	46.9%	35.1%	9.7%

Looking at the third column in Table 3.6 shows the percent of households with positive net worth, and the percent of households with zero to negative net worth, during the 2007 wave of the SCF. The Federal Reserve estimates that in 2007, approximately 90% of U.S. households fell into the category of having positive net wealth.[13]

Although their estimates appear quite divergent (i.e. wealth gain rates of 53% vs. 90%), it should be noted that the SCF and CE are measuring net wealth in two different forms. While considered the gold standard for personal wealth measurement, the SCF measures a household's life-to-date net worth at the time of the survey interview. Unlike the estimates found in the CE, estimates of a household's current net worth give no perspective on recent wealth changes.

Clearly then, the CE and SCF diverge in their estimates of wealth gains, because they are measuring one-year change in wealth vs. life-to-date net worth. However, this begs the question: How can an average of 47% of households lose or maintain their wealth per year, and yet only 9.7% of households have zero to negative life-to-date net worth? The difference between one-year wealth loss and negative net worth is explained by several factors.

One reason why annual rates of wealth loss are apparently high is the result of including zero-change households along with wealth-losing households. If households with zero annual change in wealth have gained wealth in the past, or will gain surplus wealth in the future (as most households will strive to do), then they ultimately will have positive net worth across multiple years. Examining CE data, 5.7% of U.S.

households reported zero change in net wealth during an average sample year. Thus, the percentage of households actually losing wealth per year is just 41%.

Another reason why annual rates of wealth loss are apparently high is connected to the economic life-cycle of households. Specifically, a substantial portion of wealth-losing households are in the extremes of youth and older age, and thus are spending against wealth they have accumulated (or plan to accumulate) during middle-age.

To show this effect, Table 3.6 displays the sub-sample of households whose household heads are mid-aged (i.e. 25 < Age of Household Head < 50). Notably, in the mid-aged sample the percentage of households with zero or negative annual change in wealth is 25% lower than for the population taken as a whole. This is a reflection of the substantial effect that older and younger generations exert on annual estimates of wealth loss. To examine this influence in further depth, consider the percentage of wealth-losing households within older age brackets.

Households with heads 55 years of age and older account for 51.5% of wealth-losing households; and households with heads 65 years of age and older account for 37.7% of wealth-losing households. These statistics suggest that older individuals represent a significant portion of wealth-losing households during any given year. While some of these individuals may have persistent annual wealth losses (e.g. retirees), they will also have positive net worth because of the wealth they have accumulated over their lifetime.

“Illusory” Losses

A final reason why annual losses appear to be worse than life-to-date net worth is related to the complex relationships introduced by consumers’ access to credit. In a world without credit, the gains and losses measured in the CE would mainly represent the amount that households were able to get ahead, or that they fell behind, their expenses for a year. These gains and losses would likely be small for most households, because in the absence of credit most households only are capable of gaining so much wealth, or sustaining so many losses, in a given year.

Credit changes the equation, however. Credit allows for some households (who have access to it) to take out much bigger “losses” during one year. In the absence of credit, the most a person can lose in wealth is the current value of their assets. With credit, a person can “lose” much more wealth than they currently possess. So for instance, if the entirety of my assets is composed of $10,000 in a savings account; then in the absence of credit the most I can reduce my net worth is $10,000. With credit (loans, debts, etc.), I am able to reduce my net worth by as much money as a lending institution will grant me; e.g. students may have zero assets, and yet take loans into the hundreds of thousands.

All of this is to say that the character of losses/gains is different between those using credit, and those who are not. In particular, in the absence of credit, we would expect that households’ reductions in net worth over the period of a year would be lower, because they simply could not take any loans. From a naïve standpoint then,

the main effect of credit is to allow households to have larger losses in wealth, than would be possible in its absence.

But we need not be naïve. Ultimately, we know that there are possible *advantages* to accessing debt. While common thought holds debt in opprobrium (this is certainly the view of Schor), we must recognize that using debt often leads to outcomes equal to, or better than, its alternatives. Debt allows for investment, it allows for meeting short-term gaps between revenue and expenditures, and it allows us to have the use of goods in advance of our wholly owning them. For instance, students can take debt to invest in their own human capital, households can use loans to cover expenses that will shortly be reimbursed, and individuals can take mortgages to have the use of a home before they totally pay off its purchase price. In the last case, we can see one of the key advantages to debt. Living in a home for twenty years while you pay off a mortgage is very attractive when compared to saving for 20 years and then living in that home.

As these scenarios might indicate, the presence of debt has mixed effects on our ability to measure a household's long-term finances using the annual data in the CE. In the case of covering a short-term expense that will later be reimbursed, the effect observed in the CE should at least be balanced. In this scenario, some households in the survey will have exaggerated annual losses due to their assumption of debt; but others will have exaggerated annual gains when their debt is paid-off by a lump-sum reimbursement

Similarly, if debt is used to finance a large asset purchase during a survey year, then the negative movement in net worth from the loan will be counteracted by an equally positive movement in net worth from the asset. Naturally, this means that purchasing a large asset during a survey year only has a limited effect on change in net wealth.[14] Also, in the long-term, if there is an upward trend in the value of the asset (enough to compensate for the interest on the loan), then using debt will lead to a profit when a large asset is sold. Put another way: accessing debt to make an asset purchase will have a roughly neutral effect on net wealth within a survey year; and it may have a positive outcome over the long-term, if the asset is a profitable investment.

To a certain extent, cases of investment are a subset of the issue of credit because most investments are made possible by the use of credit. Introducing investment into the equation only further complicates the situation. For instance, in the previous situation involving a large asset purchase (e.g. a house) what we observe in the CE will not correspond directly with the long-term impact of this purchase. In the year a house is bought, we will likely see slightly negative effects from the transaction costs of buying the house. However, if we observe the same house being sold, we will not see any long-term profit (or loss), because the profits mainly happened *between* years, not within the current year.[15]

Furthermore, in certain cases of investment, there are other positive benefits to using debt that will go unseen in the data. Consider a person who takes out a $50,000 loan to make renovations to her home. If she is surveyed during the year when the loan is taken (t_1), we will see a $50,000 decrease in net worth, because the money

from the loan was paid out to a contractor. If this person is surveyed during the next year (t_2) when the renovations are accomplished on her home, we will not see any increase in value resulting from her capital improvements. At the most, we would see a small positive gain in her net wealth, as she makes her first payments on her loan from the previous year. Finally, if this person is surveyed in the year when she sells the home (t_3), we would basically see zero change in wealth relating to the house. We would see no change in wealth because any increase in her wealth we observe due to the sale (e.g. paying down her remaining mortgage, an increase in financial wealth, etc.) will be equal to losing an asset whose value was set at the sale price of her home.[16] Thus, at t_1 we will see a major loss, while at t_2 and t_3 we will see no appreciable change. This naturally means that loans taken for capital improvements will show negative changes in wealth, without reflecting positive changes.

What does all of this mean for our analysis? Returning to our results, there is an intervening factor affecting our findings that is hard to measure: access to credit. On the whole, however, there are reasons to believe that access to credit will tend to overstate the detrimental consequences of annual wealth losses vis-à-vis life-to-date net worth.

Primarily, we've seen that credit has the power to produce exaggerated losses, e.g. loans, and exaggerated gains, e.g. realized investments or reimbursements. These are "exaggerations" because they make one's annual wealth loss/gain appear much larger than one's long-term average losses/gains (i.e. they misrepresent how well a household is likely to do over the long term). Given these effects, the question

becomes: if we remove these exaggerations, how many people would switch from losing to gaining, and vice versa? We must ask this question because a household with an exaggerated gain due to the effect of credit *would not necessarily have lost wealth* in the absence of credit. Similarly, a household with an exaggerated loss in wealth would not necessarily have gained wealth, had they not taken a loan. Put another way: the probability that a household would gain wealth given that credit was not involved, does not necessarily equal the probability that a household would lose wealth given that credit was not involved.

$$\mathrm{P}(p|r) \neq \mathrm{P}(q|r)$$

p = losing wealth q = gaining wealth r = credit is not involved

This exercise in conditional probability matters, because our conclusions about the two probabilities will determine the extent that an observed annual wealth loss is likely to lead to a long-term wealth loss; and similarly the extent that an observed annual wealth gain is likely to lead to a durable gain in wealth.

There is a way for us to gain insight into how short-term wealth changes may misstate long-term wealth due to the effects of accessing credit. If we remove households that appear to have a large exceptional change in annual wealth, this will give us insight into how households tend to operate during non-exceptional years. A household can be considered as having a large exceptional change, if its annual ΔHNW is greater than 10% of its total annual expenditures, and if a single category of non-liquid net wealth accounts for 90% of that change in net wealth. For the present

research, non-liquid net wealth categories include: vehicles, business investments, home equity loans, mortgages, and other forms of credit; and exclude: liquid financial accounts and securities. Non-liquid wealth is examined because it encompasses large assets and debts which generally change only during important and infrequent transactions.

If we examine households with an exceptional change in non-liquid net wealth ("NLNW"), we find that 14.3% of the total population, and 16.9% of the mid-aged population experienced a large change in their non-liquid wealth. Table 3.7 shows how including or excluding these exceptional households affects estimates of annual change in wealth, among the mid-aged population of households.

Table 3.7 Percentage of Households by Wealth Change and Exceptional Change Status

	Annual ΔHNW (CE 2004-2009)	
	Mid-aged Sample	*Mid-aged Non-Exceptional Sample*
Positive	64.9%	70.2%
Zero	1.8%	2.2%
Negative	33.2%	27.5%
Average ΔHNW	$2,103	$2,517
Median ΔHNW	$3,005	$6,742

From the table, it is evident that a higher percentage of households experience positive gains during non-exceptional years. Furthermore, during non-exceptional years, households have higher average and median gains in wealth. These findings are only suggestive; the exact probability that any year's change in wealth is related to a

long-term change in wealth is related to a complex chain of circumstances such as: the probability that a gain or loss resulting from credit will be measured in the CE, the number of households that take credit repeatedly, the average amount of debt taken, and the average amount likely to be gained in "normal" years. Nonetheless, it appears from the results above that infrequent losses may be compensated for by many years of higher gains; ergo, the losses/gains of any one year are likely to offer a vision of the future that is overly negative.

In a sense, these findings add up to one assertion: we tend to regard annual wealth losses as negatively impacting one's lifetime net worth. However, if wealth losses are due to loans, then the relationship is complicated; and in fact, many annual losses will not represent a durable loss in a household's long-term wealth. In fact, there are reasons to believe that credit will lead us to be overly pessimistic about households' lifetime wealth accumulation, if we extrapolate from any particular year of their annual wealth accumulation. Hence, we can see an important reason why the CE's estimate of annual change in wealth provides a more negative picture of household wealth accumulation, relative to the SCF's estimate of life-to-date net worth.

CONCLUSION

From this chapter we've seen that the CE is the right source of data for this project, that it does a good job of measuring annual changes in wealth, and that it offers a compelling first look at the extent that Americans gained wealth. This first look granted us a foundational picture of wealth accumulation in the United States,

and reflected the sizable disparities in wealth gains between those with and without significant assets.

This chapter also cautioned us to bear several things in mind. First, we noted that social security is an interesting case where the traditional definitions of personal wealth are ambiguous. Contributions and withdrawals to social security have important ramifications on households' financial well-being; and as such, this form of quasi-wealth deserves further study. Second, we've seen wealth-losing households are not always the same households each year, and that estimates of life-to-date net worth present a more positive picture of financial well-being than annual rates. A household's wealth loss in any given year does not necessarily indicate that they will have negative net worth across their lifetime.

CHAPTER 3: TECHNICAL APPENDIX

The following tables compare estimates found among the full sample, with the four-interview sample. It only includes those households who participated in the Survey between the second quarter of 2006 and the fourth quarter of 2009, because it is convenient to avoid any ramifications from the change in survey design occurring in 2005. As is evident from the tables, the two samples are remarkably similar. The most noticeable difference is among renters, who appear to attrit more frequently than homeowners.

Table 3.8 Comparing Full Sample to the Four-Interview Sample, Q2 2006 to Q4 2009

	MEAN AGE	MEAN NUM. OF AUTOS	MEAN FAMILY SIZE	HOUSEHOLD TENURE COMPOSITION				
				Owned w/ Mortg.	*Owned w/o Mortg.*	*Rented*	*Occ. w/o Rent*	*Student Housing*
CE – Four-interview Sample	52.40	.93	2.56	46.9%	27.4%	24.6%	1.1%	0.01%
CE – Full Sample	49.42	.90	2.53	43.2%	24.1%	31.5%	1.20%	0.7%
Difference	**2.98**	**0.03**	**0.03**	**4.4%**	**3.3%**	**-7.0%**	**-0.1%**	**-0.7%**

	RACIAL COMPOSITION			MARITAL STATUS				
	White	*Black*	*Asian*	*Married*	*Widowed*	*Divorced*	*Separated*	*Never Married*
CE – Four-interview Sample	83.5%	10.8%	4.0%	57.0%	10.6%	13.9%	2.6%	15.9%
CE – Full Sample	82.1%	11.7%	4.3%	53.3%	9.4%	14.1%	2.8%	20.4%
Difference	**0.14%**	**-0.9%**	**-0.3%**	**3.7%**	**1.2%**	**-0.2%**	**-0.2%**	**-4.5%**

	MEAN INCOME[a]	POVERTY RATE	FAMILY TYPE					
			H/W Only	*H/W w/ Child(ren)*	*Other H/W*	*Single Parent*	*Single Persons*	*All Others*
CE – Four-interview Sample	$67,185	10.7%	24.0%	26.6%	4.4%	5.2%	26.4%	13.4%
CE – Full Sample	$63,969	12.6%	21.7%	25.5%	4.3%	5.9%	28.6%	14.0%
Difference	**$4,606**	**-1.9%**	**2.3%**	**1.1%**	**0.1%**	**-0.7%**	**-2.2%**	**-0.6%**

[a] Unadjusted for inflation.

Unrealized Changes in Wealth

The method for data aggregation presented in this chapter (itself based on the configuration of the CE) is not tracking unrealized changes in wealth for homes or in retirement accounts. Losses in the value of invested retirement accounts will only be registered if they affect contributions/withdrawals to retirement accounts. The losses in the market value of properties would never register, even if a household realized the reduced value of their property by selling it during the recession, because the loss of value in the property would exactly equal any decrease in debt or increase in liquid assets resulting from the sale. Directly-owned securities are the one asset type where changes in the market value are registered. The COMPSECX variable is tracking changes in market value.

The "Great Recession"

It is well known that the macroeconomic disturbance starting in 2007 impacted the U.S. economy greatly. Naturally, this disturbance may change the interpretation of the results in this chapter. Household participating in the survey during the boom years of the bubble will reflect heightened gains, and households participating in the bust years will show heightened losses.

How much does this disturbance effect results? Surprisingly, the results are milder than one might expect. Compared with the pre-2007 sample, only 3% more households are estimated to have lost wealth in the post-2007 sample. The changes in estimated wealth changes are similarly mild. Median change in wealth differed

between the two sub-samples by only $660 ($1,386 pre-recession, $725 post-recession).

There are three primary reasons why there are only small changes between the two periods. 1) The survey is not registering unrealized changes in wealth in homes or retirement accounts. Losses in the nominal value of these assets are not registering as negative changes in asset value. 2) A lot of wealth in securities is owned by relatively few people. Hence, while aggregate losses can be large, the count of households losing is more limited. 3) During the recession, households accomplished relatively higher levels of saving to compensate for their other losses, keeping more in the black.

Data Construction

As with all constructed datasets, there are choices that must be confronted to properly transform the raw source. In the case of the CE, this is perhaps more so than usual. The source data from the CE are composed of over 40 different files which must be merged and aggregated to properly represent households' demographic characteristics, annual spending, and annual changes in wealth.

In the section that follows, a few of these technical choices will be highlighted in order to provide full discloser about the limitations of the data, and also to provide a guide to future researchers interested in using the CE.

Consumer Credit

Respondents in the CE are asked to report their change in various forms of credit in two different ways. The result is that two estimates are presented in the data

(one in the MTAB file and one in EXPN file for credit). Often these estimates match. However, in cases where there is a disparity a choice must be made. In the present research the number which resulted in the least extreme change in wealth was chosen, in order to reduce outliers.

Mortgages and Home Equity Loans

Mortgages alone represent 90% of Americans' personal debt (Doms and Motika 2006). Hence, it is essential to properly measure this form of credit. Accordingly, the CE tracks changes in the principle of mortgages and home equity loans (HELs) very precisely. Furthermore, where data are missing, the CE uses advanced imputation techniques to impute values.

While imputation generally increases the accuracy of the data, the Bureau of Labor Statistics regards households' interviews as independent, and thus does not impute values consistently across interviews. This naturally results in a problem: households' principle and change in principle are re-imputed each interview, leading to wildly varying results between interviews. For instance, if a household is imputed to have $50,000 in mortgage debt in one interview, and then is imputed to have $100,000 in the next, the resulting change in wealth will appear quite large.

For this project, where mortgage or HEL values were imputed, the change in principle was found between the beginning and end of each interview. Then each change was added together. This technique allows for each interview's imputed change in principle to be added together, without the wild variations that would result

from examining change in principle from the first imputed value to the last imputed value.

CHAPTER 4: WHAT CAUSES HOUSEHOLDS TO GAIN OR LOSE?

From the previous chapter we've seen that the *Consumer Expenditure Survey* (CE) does a surprisingly good job of measuring wealth, and that the data it captures are uniquely suited to investigating the roots of wealth accumulation. In fact, the data contain a picture of how households accumulate wealth that is relatively unexplored by the stratification and policy literature: an unprecedented view of households' spending portfolios, alongside their gains and losses in wealth, occurring over the period of a year.

In this chapter, we are going to directly confront the main question of this work: what leads households in the U.S. to accumulate wealth to varying extents? To do so, we will first need some way of measuring the concepts laid out in Chapter Two. Hence, this chapter will start by operationalizing the theoretical phenomena we hope to test in our models.

Once we have established the independent variables necessary for testing past hypotheses about wealth accumulation, the next task will be to examine the power of these variables for predicting the amount of wealth gained or lost by a household. These tests will ultimately give us insight into the factors that influence wealth gains and losses, while simultaneously considering the relative importance of each factor for explaining wealth changes.

OPERATIONALIZING CONCEPTS

This project is exploring several dimensions of consumption that are understudied. As such, operationalizing concepts is a both a key challenge, and a key opportunity for advancement in the field. By demarcating how we can "see" things like status spending, family spending, racial spending, etc. this project will make advances in measuring household's consumption using survey data.

Status Spending

According to past scholars studying status consumption, it is useful to examine households' purchases that fit into the categories of "conspicuous" and "luxury" spending. As mentioned in Chapter 2, these concepts can be tricky to pin down. Yet from an examination of the work done by Juliet Schor and Robert Frank, more precise definitions have emerged.

"Conspicuous" spending is any expenditure for a good or service that will be seen in public, or which is likely to be discussed or addressed in public (Chao and Schor 1998). These conspicuous purchases also will tend to be recreational goods that display their expense, and which invite comparison with the purchases of peers. Recent research has ranked expenditures according to their conspicuousness by aggregating respondents' individual rankings (Heffetz 2007).

Connected to conspicuous spending, "luxury" items are those expenses which are oriented toward an individual's pleasure – i.e. things that are pleasurable, self-oriented, and are not a directly productive investment for the household (Frank 1985;

Mintel 2008). Examples of such expenditures frequently include watches, yachts, jewelry, luxury cars, etc.

How does one measure these concepts with survey data? First off, conspicuous and luxury items are difficult to disentangle. Most examples for one category can rightly be categorized into the other. For instance, a swimming pool might be both a conspicuous purchase to your neighbor, and a luxury purchase for yourself. Because of this intimate interconnection between the two terms, luxury and conspicuous expenditures will be explored conjointly in this project. This is to say that the variables operationalizing these concepts will be entered into models at the same time, rather than entering variables separately, in an attempt to tease out the contribution of luxury vs. conspicuous motivations.

A second notable point is that the status expenditures tracked in this project are selected to be emblematic of status spending. The items selected do not represent the total of all luxury and conspicuous goods purchased (in fact, such a complete picture is quite impossible). Nonetheless, every effort has been made to select expenditures that represent the types of purchases made by status spenders. Consequently, tracking these expenditures should offer new insights into households who spend comparatively more on these status goods.

Finally, the expenditures representing status spending were selected because they mainly have a recreational or conspicuous purpose. This recreational use is at the heart of both luxury and conspicuous spending definitions. To give an example, spending on vacation homes was selected for this project because it is primarily a

discretionary and recreational expense for most individuals. The purpose of owning a vacation home is generally personal enjoyment (i.e. vacation), while discussing one's second home in public has the potential to provide status. Even though a second home may have some practical value as an investment, an individual with discretionary income may generally choose many other investments with a better rate of return. Hence we can infer that most vacation home purchases are recreational.

The table below offers a detailed breakdown of expenditure categories tracked by this project as indicators of status spending. Households' consumption on these categories of interest will be measured with reference to annual percentage consumption shares (not absolute spending). This is because percentages better reveal the choices households make to allocate their spending. Of course, "choices" are often made under conditions of constraint, and there will be times when the absolute amount of spending will be considered because it is more relevant for the analysis at hand.

Measures of status spending are inescapably subject to a moderate level of "noise" and potential debate. Why choose *these* expenditure types and not others? To start with, jewelry and watches are included because these are the examples of status spending *par excellence*. Both Schor and Frank repeatedly mention these items in their works. It's not hard to see why they count as status expenditures. They're highly conspicuous status items, and they have long been considered luxury items owned by the social elite.

The next category, "Subscriptions, Memberships, Books, and Entertainment Expenses," is an entertainment category compiled by the Bureau of Labor Statistics.

Table 4.1 Types of Status Expenditures Tracked

STATUS EXPENDITURE TYPES
Jewelry and Watches
Subscriptions, Memberships, Books, and Entertainment Expenses
Personal Care
Clothing Accessories
Food
Dining out
Homes
Vacation Homes and Guest Houses
Domestic Services (Housekeeping and Gardening)
Home Improvements
Other Personal Craft
Boats
Planes
Campers, Trailers, RVs
Misc.
Catered Affairs

This aggregate category includes spending on movie tickets, sports events, purchases of recreational athletic equipment, and the eponymous subscriptions, memberships, and books. Books used strictly for educational purposes are not included in this category. These types of expenditures are generally regarded to be discretionary and recreational items. Furthermore, this category represents the kind of entertainment events which might be frequented by Schor and Frank's status spenders.

Dining out is also included in the list of status expenditures. To many this may seem a hazy measure of status spending. After all, getting a burger and fries at the local fast food chain does not seem particularly glamorous. While it is true that convenience may drive this kind of purchasing to some extent, there are several reasons why dining out is included as a status spending indicator.

For one, many dining out occasions are a substitute for a good that could be purchased more cheaply if it was produced at home. While on some occasions dining out is a necessity of facilitating a busy schedule, another substantial motive for dining out is the desire for a meal that is novel, and which does not require clean-up. Put another way, one could often make a meal at home, but one chooses to instead dine out because it is more fun and less work than making one's one meal. In fact, even eating at a fast food chain might be considered an "everyday luxury," much in the same vein as Frank discusses expensive coffee-shop drinks as a substitute for the cheap coffee one can brew at home.

The other main reason why dining out is included as a status spending indicator is that certain types of dining out are undeniably conspicuous and luxury affairs. A fine dining experience at an expensive sushi restaurant will garner cultural capital that can later be displayed conspicuously, and this certainly counts as a luxurious treat. Furthermore, the greater expense lavished on dining out, the more likely this spending is an indicator of a luxury expense. Spending $300 per month on dining out might be related to the convenience of fast food; but spending $3,000 per month on dining out is almost certainly fine dining. Thus, spending relatively higher amounts on this category (controlling for other factors) should generally indicate spending on luxury and conspicuous goods.

The next categories of status spending, personal care and clothing accessories, are clear forms of status spending. These are expenses for highly visible presentations of self that are generally recognized as symbolic of status. It should be noted that only

clothing accessories (e.g. belts, hats, purses, etc.) are included in the accessories category. Other forms of clothing are not included because they might have more utilitarian purposes, making them poor representatives of status spending.

In the category of homes there are three sub-types of status spending: Vacation Homes and Guest Houses, Domestic Services (Housekeeping and Gardening), and Home Improvements. These categories represent luxury and conspicuous spending for various reasons. As previously discussed, vacation homes and guest houses are recreational expenditures because they can garner status, and they are luxuriant because they go above-and-beyond the normal vacation expenditure.

Domestic services like housekeeping and gardening are included, because they are akin to dining out. As with dining out, paying for housekeeping and gardening is sometimes necessary (i.e. not a result of status envy). Yet like with fast food, these services are frequently substitutable with one's own labor, and thus they constitute a discretionary luxury for those who can afford to out-source these drudgerous tasks.

Finally, home improvements are also included as home-related status items. Again, purchasing home improvements may have motives that are unrelated to straightforward status seeking. For instance, remodeling a home might be a capital investment, a necessary expansion, or a number of situations motivated by non-status-seeking. Still, a large component of many remodels is the desire to upgrade one's personal experience of a living space.

Penultimate on the list of status expenditures is the category of personal transportation devices including boats, planes, campers, trailers, and RVs. These

categories are included because they are almost always supplementary to other devices used for daily conveyance. For a very few people a boat may be a necessity for their daily commute. However, for the majority of individuals a boat is a pleasure craft. The same goes for personal planes, campers, trailers, and RVs. Because these are discretionary vehicles meant for personal enjoyment, it is easy to see how they would indicate status spending behavior.

The final category included on the list is Catered Affairs. These obviously measure spending on large parties thrown by a household, which require catering service. Such large parties could include soirées, elaborate birthday parties, or wedding receptions. For many individuals, the last of these will be the main reason for spending on a catered affair. To a certain extent, weddings are a compulsory ritual of societal acceptance, so spending on them is not necessarily a status expense. However, the amount of money spent on receptions is, in principle, a discretionary and recreational expense, because a wedding does not technically require a catered reception. Furthermore, as with several of the other status spending categories, the greater proportion of one's income devoted to catered affairs, the more likely this expense indicates status and luxury spending above-and-beyond basic societal norms. We would expect that compulsive status spenders would be drawn to this kind of spending.

As previously mentioned, the categories listed above do not encompass all status spending. In fact, they do not encompass the full list of expenditures tracked in the CE which might count as status spending. There are reasons why many of these

alternate spending measures were not included. For instance, spending on home renovations is included, but not spending on homes themselves. As was discussed in Chapter 2, spending on homes might be explained by a number of motives, including defensive spending. Other alternate indicators were excluded because they do not measure status spending as clearly as the current choices. For instance, traveling for vacations is a notable status expenditure. However, the problem with vacation travel is that it can be supplemented with “status points” and “airline miles” from various reward programs (an interesting form of status consumption in itself). Because these expenditures are not paid out-of-pocket, they are not uniformly measured in the CE (reward points and miles are not tracked, so some people will be showing expenditures far below the full cost of their travel). As a consequence, in the CE, spending devoted to vacation travel is not uniformly connected to one’s willingness to spend on these items for status reasons. Overall, cases like travel spending should highlight the care put into choosing status indicators for this project; as well as the number of indictors not found on the list above, which were considered but not included for complex reasons.

Financial Shock

The concepts of income and spending shocks are familiar to students of consumer economics. Basically, they indicate situations where a household experiences an acute drop in income or an acute increase in expenditures. This project will refer to these concepts conjointly using the term “financial shock.” These financial shocks are important, because many theories posit that the liquidity crises

accompanying a financial shock are a major reason why households have reduced wealth accumulation.

Table 4.2 Types of Financial Shocks Tracked

FINANCIAL SHOCK	DESCRIPTION
Lost Job	Head of household, or their spouse, was not employed at some point during the past year, although they sought employment.
Marital Status Change	
Become Separated	Married couple reported a separation.
Become Widowed	Married respondent reports the death of their spouse.
Become Divorced	Married couple reported a divorce.
Suffered Extreme Medical Expenses	Percentage spending on medical care in excess of two standard deviations above the mean.
Made Contributions to a Child's College Costs	Contributing to the expenditures of a child in college.

The present research considers the following circumstances as financial shocks: an adult in a household losing employment; a married couple becoming divorced, widowed or separated; any household contributing to a child in college; and households with extreme healthcare expenditures. Extreme healthcare spending is defined as having expenditures greater than two standard deviations above the mean household healthcare percentage (i.e. greater than 16.2% of total annual expenditures).

The reasons why these count as shocks are straightforward. An earner losing their job is generally an unexpected circumstance that causes an acute decrease in household income. Similarly, becoming separated, widowed, or divorced also has the potential to cause an acute increase in expenditures (e.g. funeral expenses, legal fees,

the cost of two homes). Along the same lines, extreme medical expenses in mid-aged individuals may result from an unavoidable and unexpected medical problem. Finally, the cost of contributing to a child in college is a financial shock because of the acute increase in expenditures. Unlike the other expenses, having a child in college is rarely an unexpected event. Nonetheless, this circumstance frequently necessitates many unexpected and unpredictable expenditures.

Wealth Classes

In recent decades, capital changes have come to more strongly affect consumers' financial decisions than in times past. Because of this growing influence, it is important to account for households' potential for such capital changes. Thus, in addition to looking at the general population, this study will separately analyze three major types of wealth owners: securities owners, home-owners, and non-owners (see Table 4.3). "Securities owners" are those households with over $10,000 in directly-owned securities. Most households in this category will also own a home. "Homeowners" are those households that own a home and who own securities valued between $0 and $10,000. Finally, "Non-owners" are those households lacking ownership of a home or any securities.

Separating households into these groups permits testing of Schor's claim that status spending is concentrated among the middle- and upper-classes. Additionally, these types correspond to known wealth ownership patterns in the U.S. (see Keister and Moller 2000), and they reflect important differences in a household's financial circumstances.

Table 4.3 Description of Households by Ownership Type (Mid-aged Sub-sample)

Type	**Description**	**% of Sample**	**Avg. Annual Income**	**Median Annual ΔHNW**
SECURITIES OWNERS	*> $10,000 in directly-owned securities*	8.5%	$87,871	$18,127
HOMEOWNERS	*Owns a home and has < $10,000 in directly-owned securities*	62.8%	$57,589	$6,933
NON-OWNERS	*Households lacking ownership of any home or securities*	28.6%	$33,698	$2,323

Households in each group are affected by broadly different issues, especially in regards to changes in their wealth. Households in each group are also distinguished by their capacity for capital gains and losses. For instance, households lacking major assets have no capacity for capital changes, while households with substantial investment in securities would be expected to have frequent and sometimes drastic capital gains and losses due to market fluctuations.

WHAT CAUSES GAINS AND LOSSES?

To gain purchase on the factors affecting wealth accumulation, the following section will employ standard OLS regression to examine the power of various independent variables to predict the amount of wealth gained or lost by a household. It will separately use logistic regression to examine the effects of independent variables on whether a household experienced a net loss of wealth.

Methods

Substantively, the following models will inspect differences between several key groups. For instance, variables indicating social groups (racial groups, age groups, etc.) will be included to see if certain groups are more susceptible to wealth loss. Additionally, the models will examine variables exploring how households differ in the ways they apportion their income. This will provide clues as to how households accumulate (or lose) wealth, and furthermore, what might be inducing them to gain or lose. For instance, status spending theorists expect higher proportions of spending to be devoted to luxury or conspicuous purchases among households with reduced wealth accumulation. Connecting household budgets to their amount of wealth accumulation offers another means to investigate the theoretical claims of previous authors.

For the logistic models measuring wealth loss, this project will regard those with zero to negative ΔHNW as having "lost" wealth. Households with zero change in net wealth are considered as losing wealth in accordance with previously published statistics (The Federal Reserve Board of the United States 2004; Wolff 2007).

For the OLS models, the dependent variable will be adjusted in order to account for the non-normal distribution of wealth changes. Tests confirm that these adjustments provide for considerable increases in model fit, and a much better approximation of the normal curve.[17] For the models, the natural log of annual ΔHNW is used. Values are multiplied by negative one if they were originally negative.

$$\pm(\log_e(|\Delta \mathrm{HNW}|))$$

Models will be run separately for the absolute value of wealth losses and wealth gains, because there are potentially different causes behind gains and losses. For households with wealth change values between zero and one (e.g. .05), their final value was set to zero.

When examining annual estimates of wealth loss it is important to account for age-related spending factors. Elderly individuals generally spend more money than they earn (if they have any income at all). Thus, older individuals are “overspending” in the technical sense of depleting more resources than they gain. Similarly, many young households are also technically overspending, even though they expect higher future incomes to compensate for their current income deficits.

Because younger and older households are not generally regarded as overspent, it is useful to include only those respondents in the middle of the age spectrum (i.e. 25 < Age of Household Head < 50). By removing the youngest and oldest respondents, it is possible to examine household wealth loss while controlling for life-cycle effects. During hypothesis testing, only households in the middle age range will be used, because previous sociological theories of wealth loss have not pertained to life-cycle-related overspending.

To allow for theoretically relevant interaction effects, some models are run with households divided by ownership class (securities owners vs. homeowners vs. nonowners) and annual wealth status (i.e, wealth losers vs. wealth gainers).

OLS Regressions: Predicting the Amount Gained or Lost

To test the effects of status spending on the amount of wealth gained or lost, the following OLS regression models examine the mid-aged sample of households. Table 4.4 below outlines the results of the full model when run on the natural log of change in wealth, among wealth-gaining and then wealth-losing sub-samples (β-coefficients are presented in the table to make interpretation easier).

Before diving into an analysis of coefficients, there is a notable difference in the adjusted-R^2 found in the three models presented below. Namely, the adjusted-R^2 of the full model is well lower than the adjusted-R^2 of the models run separately for the wealth-gaining and wealth-losing households. A first suspicion might be that the transformations of the dependent variable are responsible; however, further examination suggests another cause: the intervention of credit. Figure 4.1 elucidates how credit might produce the observed effects.

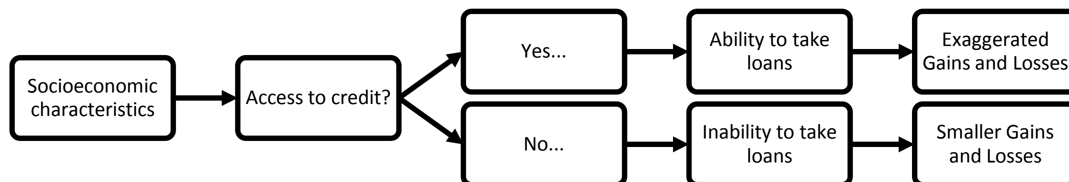

Figure 4.1 Effect of Credit on Observed Wealth Losses

We've seen that households with access to credit may have larger losses in any given year. Yet for households with access to credit, this can lead to long-term outcomes that are better than the outcomes of those with limited access to credit. Additionally, we've seen that the exaggerating effects of credit are contravening—some households will have exaggerated gains, and others will have exaggerated losses.

Table 4.4 OLS Regression Models Predicting Change in Wealth for American Households with Heads Aged 25-50 †

Independent Variables	Full Sub-Sample	Net Loss Households	Net Gain Households
Age of Reference Person (10 yrs)	.012	-.063***	.046***
Education of Ref. Person	.052***	-.050**	.092***
Place Size	-.008	.044**	-.022*
Financial Controls			
Not seeking employment	-.013	.032*	-.022*
Income	.021	-.066***	.168***
Bank Account Balance [a]	-.008	-.070***	.044***
Survey Frame (started interview) [b]			
2004 – Q’s 3 & 4	.017	-.028	.011
2005 – Q’s 1 & 2	-.008	-.023	.026*
2005 – Q’s 3 & 4	.033**	-.036*	.040**
2006 – Q’s 1 & 2	.010	-.001	.018
2006 – Q’s 3 & 4	.043**	-.005	.041**
2007 – Q’s 1 & 2	.006	.000	.019
2007 – Q’s 3 & 4	.000	-.031	-.003
2008 – Q’s 1 & 2	-.005	-.022	.020
2008 – Q’s 3 & 4	.017	-.028	.023
2009 – Q’s 1 & 2	.007	-.010	.028*
Status Spending			
Jewelry	-.007	-.019	.017
Entertainment	.001	.008	.016
Personal Care	.011	-.005	.006
Clothing Accessories	.024*	-.033*	.002
Dining Out	-.003	.042**	-.030**
Vacation Home(s)	.003	-.007	.004
Domestic Services	-.009	-.011	.021*
Home Remodeling	-.017	-.021	.012
Boats	.008	.005	.021*
Recreational Vehicles	.006	-.022	.013
Catered Affairs	-.017	-.012	.029**
Starting Mortgage Debt	.019	-.146***	.182***
Starting HEL Debt	-.002	-.035**	.054***
Starting Vehc. debt	.001	-.002	.002
Family Type [c]			
Female Adult and Child(ren)	-.004	.029	-.033**
Adult Couple	.016	-.081***	.070***

Table Continued…

Independent Variables	**Full Sub-Sample**	**Net Loss Households**	**Net Gain Households**
Adults and Child(ren) under 6	.019	-.064***	.059***
Adults and Child(ren) under 17	.046***	-.114***	.107***
Adults and Child(ren) over 17	.005	-.097***	.064***
Other	-.008	-.088***	.050***
Poverty Status	-.017	.204**	-.121***
Primary Worker Status			
Fulltime	.019	-.023	.006
Overtime	.019	-.036*	.063***
Financial Shock?	-.051***	.099***	.005
Race of the Reference Person [d]			
Hispanic	-.011	.071***	-.060***
Black	.001	.105***	-.063***
Asian	.006	.036**	-.042***
Adjusted R^2	**.016**	**.288**	**.280**
N	11859	4151	7707

* p < .05 ** p < .01 ***p < .001

Reference groups is: a. at beginning of survey year, b. 2004 Q's 1 & 2, c. Single Persons, d. White

† Dependent Variable = Natural log of household's change in annual net wealth.

So the same variables included in one model fitted to wealth-gaining households may have an opposite coefficient in another model fitted to wealth-losing households, if that variable is significantly correlated with access to credit. This opposing effect is seen with several independent variables in the tables. The variables indicating Black racial status, Hispanic racial status, living in poverty, annual income, and the value of one's combined bank accounts all have opposing coefficient values among the wealth-gaining and wealth-losing sub-samples. If credit leads to contravening coefficients

among wealth-gaining and wealth-losing households, this explains why the fit of the total population model is low.

Furthermore, access to credit also explains the rather surprising finding that minority and poverty households have mitigated losses when compared with other wealth-losing households. It also explains why households with higher incomes and more money in their bank accounts would tend to have greater losses than those with lower incomes and less money in their accounts. Higher income and having more money in one's accounts indicates greater access to credit, while being a racial minority and living in poverty indicate less access to credit. Greater access to credit can lead to heightened losses when a debt is taken, but also to higher returns when an investment or reimbursement is received. Hence, those lacking access to credit would tend to have less extreme changes in wealth overall. Given this is the case, it appears we have an intervening variable that threatens to interfere with the straightforward interpretation of our results. How might we circumvent this interference?

To address the issue, it would be helpful to examine the long-term consequences of factors, such as being a minority or living in poverty, on a household's wealth. This would show us whether the increased annual losses we observe among those accessing debt lead to long-term negative consequences. In turn, this would also indicate whether the lack of access to credit among poor and minority households is a boon or a detriment to them, over the long-term.

Ideally, to gain a long-term view of wealth accumulation we would measure a household's life-to-date net worth at the time of their participation in the CE.

Table 4.5 OLS Regression Models Predicting End-of-year Bank Account Balance for American Households with a Bank Account and with Head Aged 25-50 †

Independent Variables	Households with a Bank Account
Age of Reference Person (10 yrs)	.106***
Education of Ref. Person	.143***
Place Size	.008
Financial Controls	
Not seeking employment	.061***
Income	.350***
Survey Frame (started interview) [a]	
2004 – Q's 3 & 4	.022
2005 – Q's 1 & 2	.028*
2005 – Q's 3 & 4	.026
2006 – Q's 1 & 2	.033*
2006 – Q's 3 & 4	.001
2007 – Q's 1 & 2	-.002
2007 – Q's 3 & 4	.012
2008 – Q's 1 & 2	.019
2008 – Q's 3 & 4	.013
2009 – Q's 1 & 2	-.018
Family Type [b]	
Female Adult and Child(ren)	-.014
Adult Couple	-.013
Adults and Child(ren) under 6	-.012
Adults and Child(ren) under 17	-.043***
Adults and Child(ren) over 17	-.043***
Other	-.046***
Poverty Status	-.006
Primary Worker Status	
Fulltime	-.020
Overtime	.027*
Financial Shock?	-.011
Race of the Reference Person [c]	
Hispanic	-.042***
Black	-.061***
Asian	.031**
Adjusted R^2	**.212**
N	7142

* p < .05 ** p < .01 ***p < .001

Reference groups is: a. 2004 Q's 1 & 2, b. Single Persons, c. White

† Dependent Variable = Square root of household's combined checking and savings accounts.

This would give us a picture of the extent of gains and losses for a household up to the year they participated in the survey. We unfortunately do not have a comprehensive measure of life-to-date net worth in the CE (as discussed in Cht. 2 there are limitations to the survey, as with all surveys). Still, we might see some suggestive differences if we look at the balance of households' bank accounts, which are included in the CE survey. A household's combined saving and checking account balances can suggest how much money households have been able to accumulate in longer-term reserves.

Looking at the preceding table, we see that minority and poverty households have less in their reserves. This implies that poor and minority households held on to less wealth than white or non-poor households, up to the year they were surveyed. Ultimately, this also implies that the consequences of being a minority or in poverty are quite negative, and that any benefit from restricted access to credit is far out-weighed by the disadvantages of being a minority or living in poverty. This finding makes sense; most evidence in the literature on wealth already indicates that being a minority or living in poverty is harmful to one's wealth accumulation.

Interpreting the OLS Regression Results[18]

Looking at the table above, we can gain some sense of the relationships that exist between the independent variables and total bank account balances. In general, the variables with the most explanatory power are those indicating overall financial means (e.g. total annual income), as well as those indicating disadvantaged circumstances. Living in poverty, having a Black or Hispanic household head, and

experiencing a financial shock, were significant predictors of reduced wealth accumulation in the various models.

Notably, the results of the OLS models indicate that Black- and Hispanic-headed households appear to be at a disadvantage. This accords with Oliver and Shapiro's claim that the racial hierarchy of the United States diminishes the wealth gains of certain minority families. Noteworthy however, is that households with an Asian household head showed significantly greater wealth reserves, despite having reduced gains in the model run among wealth-gaining households. The reasons behind this contradiction appear unaccounted for by current theory. One potential answer is that Asian households have reduced access to credit (hence their less extreme annual gains), but that they accomplish elevated levels of annual saving (hence their ultimately higher bank accounts).

In the models examining annual changes in wealth, only two variables operationalizing status spending predicted reduced wealth accumulation – dining out and clothing accessories. The remaining significant variables run counter to status spending theories – the variables are a predictor of *increased* wealth.

Furthermore, entering variables into the models hierarchically, the change in adjusted R^2 reveals that little explanatory power is gained from the status spending variables (hierarchical models available upon request from the author). Entering these variables into the model alone provides an adjusted R^2 of .033 among wealth-losing households. However, there is evidence that disadvantaged circumstances play a role in predicting wealth losses. Variables for diminished means (e.g. financial shocks,

poverty status, etc.) provide a large increase in R^2 when added to the model (from .033 to .169 among wealth-losing households).

What about the "Great Recession"?

Clearly, the timeframe spanning 2004-2009 is not an average period of American macroeconomic history (if such a period ever exists). 2004 is a period of recovery from a recession, and the remaining years of the sample see the collective growth and decline of the subprime mortgage bubble. It would be remiss not to examine, as best as possible, the effects of such a large macroeconomic disturbance on wealth loss patterns.

When examining the percentage of households with zero to negative change in wealth, surprisingly, net losses seem to have occurred fairly equally throughout the sample frame. The number of wealth-losing households only ranges from a low of 38.3% (in later 2006), to a high point of 44.4% (in early 2005). Most years are near the average of 41.2%. How is this possible when an unprecedented recession washed out trillions of dollars of wealth, and caused record unemployment?

Obviously, households resist losing wealth. In fact, as noted in the popular press, the savings rate was at a recent high as Americans compensated for the losses they were experiencing in their assets (Stanton 2009). Furthermore, it is important to remember that not all households bore the brunt equally. Households with large securities ownership were significantly more likely to lose wealth during the period of mid-2007 to 2008. While they lost tremendous sums of wealth, households with such large securities investments are proportionally fewer in number. Finally, while many

households felt the pinch of rising and then falling capital investment values, it should be borne in mind that much of the "gained" and "lost" wealth was in fact unrealized. House and stock prices rose and then fell, but this mainly harmed those households who realized the change in value by selling their homes or stocks, or who refinanced their mortgages, in a deleterious fashion.

Another way to measure the effect of the bubble is by examining differences between the first and second halves of the sample years (results available upon request). Obviously, splitting the sample in half diminishes the size of each sub-sample. In general, no results stand out after separating the samples. This is also seen in the full model, where only two of the variables indicating time period were significant.

Logistic Regression: Predicting Gains vs. Losses

The previous models examined whether various factors predict households to gain less, or lose more, than fellow wealth-gaining or wealth-losing households. A key result from these models was that elevated status spending does not strongly predict exacerbated losses in wealth (in fact, one variable indicated mitigated loss). However, this begs the question: might status spending predict that households more frequently lose wealth? Put another way: even if status spending may not cause a household to lose especially more than other wealth-losing households, might it still greatly increase the odds that a household will lose wealth instead of gaining it?

To address the likelihood that households experienced gains vs. losses, Tables 4.6 and 4.7 summarize the results of successive logistic regression models predicting

households' wealth loss status (i.e. whether or not they experienced a net loss of wealth). These analyses are restricted to households with heads aged 25 to 50, to control for life-cycle effects. In the tables, positive coefficients indicate higher log odds of a net loss in wealth, and negative coefficients indicate lower logs odds of a net loss.

The results in Table 4.6 include the full model for all households, as well as the partial models for the variables operationalizing status spending and disadvantaged circumstances.

Examining the full model reveals that financial factors and several control variables are important predictors of wealth losses. Being an adult couple with children significantly reduces one's odds of losing wealth. Also, in terms of education, having just a high school degree also significantly lowered a household's odds of losing wealth. Living in a small to mid-sized town increased a household's odds of losing wealth, when compared with the areas that are designated by the Census as "non-places".

Additionally, the variable for having an unemployed household member, who is not actively looking for a job, also significantly increased one's odds of a net loss. This variable is included to contrast with the "no earners, member is looking for a job" variable entered later in the financial shocks section. Entering this variable allows the effect of having no earners to be decomposed into unemployed households that are looking for employment, and unemployed households reporting that they are not

Table 4.6 Logistic Regression Models Predicting Wealth Loss for American Households with Heads Aged 25-50 †

Independent Variables	Controls	Status Spending	Adverse Circumstances
Years of Education [a]			
< High School	.519***	.491***	.375***
< Bachelor's degree	.354***	.337***	.320***
Bachelor's degree	.140	.141	.149*
Size of Community [b]			
1 – 49,999	.193***	.197***	.180***
50,000 – 249,999	.152**	.162**	.142**
250,000 – 499,999	.115	.139	.126
500,000 – 999,999	.228*	.252*	.200*
1 Million – 2.49 Million	.131	.133	.074
2.5 Million – 4.9 Million	.094	.091	.055
5 Million or More	.227	.239	.198
Total Annual Income (in thou.)	-.001***	.001*	-.004
Age of Reference Person (10 yrs)	.014	.002	-.014
Financial Controls			
Not seeking employment	.056	.050	.131**
Starting Mort. (*in ten thou.*)		-.007**	-.005**
Starting HEL (*in ten thou.*)		.003	.007
Starting Vehc. Debt		.002	.001
Survey Frame (started interview) [c]			
2004 – Q's 3 & 4	-.249*	-.235	-.267*
2005 – Q's 1 & 2	.032	.036	.043
2005 – Q's 3 & 4	-.205*	-.201*	-.209*
2006 – Q's 1 & 2	-.093	-.088	-.070
2006 – Q's 3 & 4	-.259**	-.239**	-.264**
2007 – Q's 1 & 2	-.053	-.032	-.025
2007 – Q's 3 & 4	-.002	.016	-.008
2008 – Q's 1 & 2	.004	.027	.034
2008 – Q's 3 & 4	-.104	-.086	-.136
2009 – Q's 1 & 2	-.064	-.040	-.061
Status Spending (% of tot. spend.)	.		
Jewelry		1.999	1.769
Entertainment		.131	.29
Personal Care		-4.342	-3.946
Clothing Accessories		-39.479**	-39.571**
Dining Out		-.853	-.633
Vacation Home(s)		.016	.018

Table Continued…

Independent Variables	**Controls**	**Status Spending**	**Adverse Circumstances**
Domestic Services		4.255	3.015
Home Remodeling		.218	.211
Boats		-1.288	-1.012
Recreational Vehicles		-1.245	-.961
Catered Affairs		4.511*	4.354*
Family Type[e]			
Single Adult and Child(ren)			.057
Adult Couple			-.029
Adults and Child(ren)			-.167**
Other			.052
Poverty Status			.145*
Primary Worker Status			
Fulltime			-.089
Overtime			-.052
Financial Shock?			
Lost Job			.803***
Changed Marital Status			.342*
Widowed			.113
Supporting College Child			.146
Extreme Medical Costs			.240*
Race of the Reference Person [e]			
Hispanic			.075
Black			.027
Asian			-.045
Constant	-.967***	-.882***	-.835***
Nagelkerke R^2	**.017**	**.021**	**.038**
N	12071	12071	12071

* p < .05 ** p < .01 ***p < .001

Reference groups is: a. More than Bachelor's Degree, b. Census Designated Non-places, c. 2004 Qs 1& 2, d. Single Persons, e. White

† Dependent Variable = Household experienced a net loss (i.e. zero to negative change) in annual net wealth.

Table 4.7 Logistic Regression Models Predicting Wealth Loss for American Households with Heads Aged 25-50, by Ownership Group [†]

Independent Variables	Non-Owners	Homeowners	Securities Owners
Years of Education [a]			
< High School	.291	.301*	-.528
< Bachelor's degree	.188	.335***	.367
Bachelor's degree	-.039	.193*	.250
Size of Community [b]			
1 – 49,999	.212	.158**	.046
50,000 – 249,999	.093	.145	-.214
250,000 – 499,999	-.277	.331*	.268
500,000 – 999,999	.336	.047	-.293
1 Million – 2.49 Million	.087	.030	-.166
2.5 Million – 4.9 Million	-.046	-.038	.306
5 Million or More	.074	.043	.537
Total Annual Income (in thou.)	-.000	-.004	-.002
Age of Reference Person (10 yrs)	-.003	.031	.340*
Financial Controls			
Not seeking employment	.262**	.053	.306
Starting Mort. (*in ten thou.*)	-.004	.001	.007
Starting HEL (*in ten thou.*)	-.002	-.002	-.003
Starting Vehc. debt	.001	-.003	-.002
Survey Frame (started interview) [c]			
2004 – Q's 3 & 4	-.423	-.270	.095
2005 – Q's 1 & 2	.028	.023	.177
2005 – Q's 3 & 4	-.288	-.185	-.303
2006 – Q's 1 & 2	.025	-.161	.108
2006 – Q's 3 & 4	-.418**	-.251*	-.025
2007 – Q's 1 & 2	-.056	-.071	.003
2007 – Q's 3 & 4	-.254	.003	.632
2008 – Q's 1 & 2	-.145	-.076	1.359***
2008 – Q's 3 & 4	-.290	-.297*	1.502***
2009 – Q's 1 & 2	-.177	-.068	.231
Status Spending (% of tot. spend)			
Jewelry	1.760	2.551	.737
Entertainment	.444	.614	-1.500
Personal Care	-4.646	-6.040	16.055
Clothing Accessories	-53.129*	-39.246*	-28.677
Dining Out	.137	-.484	-.868
Vacation Home(s)	.171	.029	-.122
Domestic Services	8.602	-2.664	4.521
Home Remodeling	2.858	.157	.878
Boats	2.181	-1.556	-.115
Recreational Vehicles	-5.302	.034	-15.092

Table Continued…

Independent Variables	**Non-Owners**	**Homeowners**	**Securities Owners**
Catered Affairs	-.124	6.578*	-2.613
Family Type[d]			
Single Adult and Child(ren)	.090	.080	.012
Adult Couple	-.116	.154	.002
Adults and Child(ren)	-.295**	.060	-.125
Other	.003	.254	-.276
Poverty Status	-.039	.100	.358
Primary Worker Status			
Fulltime	-.093	-.078	.093
Overtime	-.197	.018	-.046
Financial Shock?			
Lost Job	1.199***	.466***	-20.593
Changed Marital Status	.265	.345	.961
Widowed	-.168	.391	.002
Supporting College Child	.004	.135	.035
Extreme Medical Costs	.475	.199	.552
Race of the Reference Person[e]			
Hispanic	.095	.022	-.127
Black	.062	-.172	1.108**
Asian	-.011	-.089	-.075
Constant	-.429	-1.186***	-2.895**
Nagelkerke R^2	**.079**	**.024**	**.162**
N	3462	7569	1040

* p < .05 ** p < .01 ***p < .001

Reference groups is: a. More than Bachelor’s Degree, b. Census Designated Non-places, c. 2004 Qs 1 & 2, d. Single Persons, e. White

† Dependent Variable = Household experienced a net loss (i.e. zero to negative change) in annual net wealth.

looking for employment. Reasons for being in the latter group include being early retired, being a homemaker, and being a student.

Looking at the status spending variables in the full model, only two indicators of status spending remain as a significant predictor of wealth: clothing accessories and catered affairs. The effect of greater spending on catered affairs indicates an increased

chance of losing wealth, as would be expected by status spending theories. Dissonant with the expectations of status spending theories, increased proportional spending devoted to clothing accessories is associated with a reduced chance of losing wealth. This suggests that spending on clothing accessories indicates that a household did well in a given year. Of course, the notably large coefficient value for this variable raises attention. This variable has many low values (60% of households dedicate less than a tenth of a percent of spending to this category). Thus, households spending even a modest amount on this variable can lead to a skewed result. Removing this variable from the model has no significant difference on the other coefficients.

Turning to the variables associated with the alternate theories, the effect of suffering a disadvantaged circumstance is notable: losing employment, changing one's marital status, and having high medical costs each increase a household's odds of losing wealth. In fact, after a job loss, a household's odds of losing wealth are 2.3 times the odds of a household without a job loss, all other things being equal. This points to an important finding: namely, that experiencing a financial shock has a significant effect in determining whether a household will have a loss or gain. Hence, in addition to predicting that a household will lose especially more wealth (Table 4.4), a financial shock also increases the odds that a household will lose wealth instead of gaining it. Among the variables for race, no racial status indicates a significant difference in chance of wealth loss.

A final notable finding from the OLS regression tables is related to liabilities. In the OLS regressions, the effects of each liability (mortgages and HELs) have contravening effects between the wealth-gaining and wealth-losing households.

Wealth Ownership Sub-samples

As mentioned previously, households with differing levels of wealth may be subject to different factors influencing their wealth gains and losses. To test these potential differences, Table 4.7 compares coefficients for the full model, among each of the wealth ownership sub-samples.

Turning to the table, one sees differences between the ownership groups. Examining these differences, several trends appear. Non-owning households are affected by income-consumption gaps like losing a job or having extreme medical costs. This sensitivity to income-consumption gaps makes sense; given that the non-owning group has the lowest average annual increases in net wealth (see Table 4.3). It simply takes less of a shock for a household in this group to shift from a net gain, to a net loss.

Comparing the Nagelkerke estimations of pseudo-R^2, the full model provides less predictive power among homeowners, than among non-owners and securities owners. However, there are some interesting coefficient differences found in these wealthier groups. The benefits of education appear most strongly among home-owning households. Among households in the securities ownership sample, households with Black household heads are significantly more likely to have lost

wealth. The exact reasons behind these differences appear to be unaccounted for by current theory.

Also, it is noticeable that the wealthier ownership groups seem less affected by variables connected to income-consumption gaps. It is also notable that securities owners are more significantly affected by their survey entry date. This variable serves as a proxy for macroeconomic fluctuations, and the significance of these variables indicates that households with large securities investments were more strongly affected by the adverse market conditions of mid-2007 to 2009.

Looking across the wealth ownership groups, it is notable that there is little change to the status spending variables. Catered affairs become significant among home-owning households, and home remodeling is significant among securities owners.

WHY DO HOUSEHOLDS GAIN OR LOSE WEALTH?

Drawing upon the results above, we begin to see a clearer picture of the proximate causes for household wealth gains and losses. Proximate causes are those factors immediately preceding a gain or loss in wealth, and which are likely to be directly responsible for the gain or loss.

Status theories hypothesize that wealth loss is precipitated by a household's inattention to their budget. Essentially, the theories of Juliet Schor and Robert Frank argue that people are unconcerned with, or unaware of, routinely consuming more than their income. If their hypotheses are correct, then wealth losses should be explained by overspending on status items. However, evidence did not strongly

support these hypotheses. In the models examining annual changes in wealth status spending variables were mostly insignificant, and contributed negligible explanatory power. What's more, across the models significant variables often predicted *increased* annual gains in wealth. Thus, a primary finding of this work is that reduced wealth accumulation does not predominantly result from inattention to overspending as status spending theories contend.

Alternate explanations for the proximate causes of wealth loss show varied results. However, the best predictors of both wealth losses and reduced wealth accumulation were adverse circumstances which tend to overwhelm a household's budget. Thus, it appears that adverse circumstances are an important cause precipitating wealth losses. Hence, "keeping afloat" during disadvantaged circumstances evidently has negative consequences on a household's wealth. Conversely, those households privileged enough to avoid such disadvantaging circumstances benefit significantly.

CHAPTER 4: TECHNICAL APPENDIX

In the models presented in this chapter, there are several technical issues that deserve consideration.

Primarily, the presence of spending variables on one side of the regression equation may raise eyebrows given that the other side includes change in wealth. After all, spending is (in a certain sense) a component of wealth accumulation, because of its connection to saving.

As discussed in this chapter, the ultimate goal of including recreational spending is to measure a households' susceptibility to status pressures. If the concern is that recreational spending is too directly related to wealth, it should suffice to note that this situation would only *amplify* the relationship between status spending and wealth accumulation. Yet, the findings of this work are such that status spending appears to be a weak predictor of change in wealth.

Another issue deserving consideration is the indirect measurement of a behavioral attitude (susceptibility to status pressures) with a measure of spending. In theory, the preference to spend on status goods should be strongly related to spending on recreational items. However, the link is not exact, and as such, it is not possible to speak in terms of strong causation. The evidence of this chapter strongly suggests that status spending is not a predictor of wealth accumulation, but further work is needed to prove the absence of a causal link.

Another technical issue deserving consideration is sample specification. The following table provides insights on how the regression models vary based on sample specification. In particular, the models show how coefficients change when deposits/withdrawals to social security are included, and also when households with exceptional changes in NLNW are excluded. For convenience, the results from the full model in Table 4.4 are included as well (i.e. the results found when social security is excluded). As with the models in Chapter 4, these are only run on the mid-aged sample. For brevity's sake, the models are only run among wealth-gaining households (models run among wealth-losing households available upon request).

Table 4.8 OLS Regression Models Predicting Change in Wealth for American Households with Heads Aged 25-50 [†]

Independent Variables	ISS Sample	Non-exceptional Sample	ESS Sample
Age of Reference Person (10 yrs)	.023*	.043***	.038***
Financial Controls			
Not seeking employment	-.068***	-.037**	-.030***
Income	.419***	.353***	.341***
Bank Account Balance	.024*	.018	.017
Survey Frame (started interview) [a]			
2004 – Q's 3 & 4	.006	.013	.008
2005 – Q's 1 & 2	-.010	.022	.018
2005 – Q's 3 & 4	.008	.018	.021
2006 – Q's 1 & 2	-.009	.007	.009
2006 – Q's 3 & 4	.004	.018	.023
2007 – Q's 1 & 2	-.009	-.001	.007
2007 – Q's 3 & 4	-.035**	-.028*	-.020
2008 – Q's 1 & 2	-.017	.000	.002
2008 – Q's 3 & 4	-.001	.008	.012
2009 – Q's 1 & 2	-.006	.008	.012
Status Spending			
Jewelry	.003	.008	-.023
Entertainment	.010	.007	.004
Personal Care	.014	.007	.005
Clothing Accessories	-.007	.004	-.002
Dining Out	-.015	-.002	-.012
Vacation Home(s)	.010	.004	-.016
Domestic Services	-.001	.005	.002
Home Remodeling	.024**	.011	.014
Boats	.013	.017	.016
Recreational Vehicles	.000	.009	.007
Catered Affairs	.009	.014	.015
Starting Mortgage Debt	.093***	.091***	.109***
Family Type [b]			
Female Adult and Child(ren)	-.058***	-.049***	-.043***
Adult Couple	.082***	.074***	.066***
Adults and Child(ren) under 6	.074***	.064***	.054***
Adults and Child(ren) under 17	.104***	.083***	.075***

Table Continued…

Independent Variables	**ISS Sample**	**Non-exceptional Sample**	**ESS Sample**
Adults and Child(ren) over 17	.061***	.044***	.037***
Other	.048***	.037***	.034***
Poverty Status	-.211***	-.117***	-.116***
Primary Worker Status			
Fulltime	.027**	.012	.009
Overtime	..067***	.058***	.053***
Financial Shock?	-.050***	-.012	-.012
Race of the Reference Person [c]			
Hispanic	-.052***	-.075***	-.065***
Black	-.092***	-.065***	-.072***
Asian	-.016	-.023*	-.027*
Adjusted R^2	**.489**	**.326**	**.309**
N	7721	6910	7721

* p < .05 ** p < .01 ***p < .001

Reference groups is: a. 2004 Q’s 1 & 2, b. Single Persons, c. White

When social security contributions are included, as well as when exceptional households are excluded, the adjusted-R^2 is higher. This is likely due to two factors.

When social security is included in a model, more of the variation in change in wealth is directly connected to income, because social security contributions and withdrawals are tied to income.

Thus, in the first column, the predictors are probably able to better predict change in wealth, because they are closely tied with earning (e.g. working full time instead of part time, losing one’s job, not seeking employment). The predictors in the second column probably do better than the predictors in the third column because the exaggerations of credit have been removed. With less noise in the sample related to

one-time changes in credit, the variables affecting spending and saving have greater "traction." Looking at the coefficient values, the differences in the models are slight.

The predictors in the first column are mainly different from the third column where income is involved (i.e. particularly the independent variable indicating annual income). This is to be expected. As was just mentioned, contributions to social security are tied to earnings. Hence, factors like not seeking employment or experiencing a financial shock are likely to have bigger effects on change in wealth, if a major component of wealth changes is related to income.

The coefficient values in the second column are very similar to the values in the third column. In general, the coefficients show slightly stronger relationships in the same direction as the coefficients of the third column. The exceptions are the variables indicating Black and Asian racial status. These variables are slightly weaker versions of the ones found in the third column. This suggests that effects of racial status on change in wealth may have slightly more to do with access to credit than with other predictors.

Another issue related to sample specification is the designation of wealth-gaining vs. wealth-losing. Understanding that many households experience near-zero changes in wealth (i.e. very little gained or lost) it is possible that measurement error would significantly affect results when households near zero are included in the models. Put another way: when households have changes in wealth that are near zero, it would be easy for measurement error to improperly designate them as gaining wealth when they lost wealth, or vice versa. In theory, these misdesignations should

be random. However, to ensure that this issue did not affect the models, households with wealth changes between +/- $200 were set to zero. In the OLS regressions they were simply counted as zero. In the logistic regressions they were counted among the wealth-losing households, per my operationalization. Results of these separate tests are available upon request. This change did not significantly impact the coefficients or the model fit of the OLS or Logistic regressions.

A similar concern regarding wealth designations relates to the unrealized changes in wealth. In particular, some may be concerned that unrealized changes in wealth are not being tracked in the value of homes or invested retirement accounts (see Cht. 3 Technical Appendix). To answer these concerns, the following should be considered. If these unrealized gains were tracked, then wealth gains would be even higher during the pre-recession years and even lower during the recession. Similarly, overall spending is higher pre-recession, and lower during it (Pistaferri, Petev et al. 2011). Thus, this finding would likely show that households are acting responsively to the market. Hence, this would likely further my finding that households are acting responsibly by cutting spending when times are bad, and amplifying when times are good (thereby negating ideas of Schor and Frank that households are inattentive to their spending).

Another potential area of concern is the assertion that credit explains the switched direction of coefficients in the wealth-gaining and wealth-losing models. Foremost, to allay concerns that this is related to a syntax error, scatterplots and bar charts run on each variable indicate that the results of this model are correct. For

instance, these results (available upon request) show that wealth-gaining households with black household heads have roughly half the median gains as do wealth-gaining households that are non-black. A similar finding obtains among black and non-black wealth-losing households (i.e. they have median losses that are roughly half). Along the same lines, scatterplots show that no household designated as wealth-losing experienced positive gains in wealth, or vice versa (which would indicate a coding error).

In the chapter, the analysis of bank account balances suggests that households with lower variations in wealth fare worse over the long term. Black households, Hispanic households, poor households, etc. have reduced variability in their gains and losses, but they also still have limited wealth gains over the long term.

For those still uncertain that the switched coefficients' are related to financing, there are several points of argument that suggest this is indeed the case. First, s*omething* in a household's balance sheet must register a large change, if a household's overall net wealth is to take a large loss or gain. In order to spend a very large amount of money in one year, one must generally use credit. Similarly, in order to gain a very large amount of money in one year, one generally needs to divest a profitable investment. Above a certain limit, it is quite hard to achieve an extreme change in wealth without the help of credit or an investment.

Hence, there is a clear theoretical reason to believe that there is a two-tiered system of wealth changes. For those with access to credit and the world of investment, losses and gains will be larger. For those without access, the variations

will be smaller. Evidence from the dataset (available upon request) backs up this vision by showing that as total annual income increases, the standard deviation of wealth changes rises nearly monotonically.

Ultimately, the issue of access to credit is intriguing, but it cannot be completely settled in this work. For instance, consumer credit is missing from the models because it cannot be measured. There is a -.026 correlation ($p < .000$) between change in wealth and having a change in consumer credit (a rough proxy for access to it). This is interesting, and suggests that there is a negative relationship between access to consumer credit and wealth outcomes. Still, this variable (having a change in credit) is not as good a measure as the other liability variables that are measured at the beginning of the survey period. Based on the findings from the other liability variables, it is likely there is only a weak tie between starting credit and annual change in credit. Consumer credit is an uncertain spot in the present research and deserves further study.

Finally, the last concern related to the regression analyses involves the normality of the variables. The following table shows the means and standard deviations for independent variables entered into the regression models. The following histograms show the distribution of change in net wealth among the unadjusted values, and the log-linear adjusted values of the dependent variable. As can evidently be seen, the unadjusted model deviates extremely from the normal curve. The adjusted distribution is a much improved approximation of the normal curve.

Table 4.9 Mean and Standard Deviation for Independent Variables in Regressions

	Wealth Loss		**Wealth Gain**		**Total**	
	Mean	**Std. Dev.**	**Mean**	**Std. Dev.**	**Mean**	**Std. Dev.**
Age of Reference Person	60.76	16.93	44.64	12.25	52.05	16.66
Education of Ref. Person	5.11	5.89	6.58	6.47	5.91	6.26
Place Size	1.45	1.59	1.49	1.63	1.47	1.61
Hispanic	0.08	0.28	0.13	0.34	0.11	0.31
Black	0.11	0.31	0.10	0.31	0.11	0.31
Asian	0.03	0.18	0.05	0.21	0.04	0.20
Poverty Status	0.17	0.37	0.09	0.28	0.12	0.33
Income	$49,168	$54,603	$74,795	$75,911	$63,015	$68,170
Bank Acct. Balance	$17,274	$94,258	$13,711	$231,188	$15,349	$181,566
Jewelry	0.00	0.01	0.00	0.01	0.00	0.01
Entertainment	0.05	0.10	0.05	0.04	0.05	0.07
Personal Care	0.01	0.02	0.01	0.01	0.01	0.01
Clothing Accessories	0.00	0.00	0.00	0.00	0.00	0.00
Dining Out	0.03	0.04	0.04	0.03	0.04	0.04
Vacation Home(s)	0.01	0.35	0.02	0.27	0.02	0.31
Domestic Services	0.01	0.02	0.00	0.01	0.00	0.01
Home Remodeling	0.02	0.14	0.02	0.09	0.02	0.12
Boats	0.00	0.01	0.00	0.01	0.00	0.01
Recreational Vehicles	0.00	0.02	0.00	0.02	0.00	0.02
Catered Affairs	0.00	0.01	0.00	0.01	0.00	0.01
Fulltime	0.06	0.23	0.14	0.35	0.10	0.30
Overtime	0.09	0.29	0.24	0.43	0.17	0.38
Adult Couple	0.29	0.46	0.20	0.40	0.24	0.43
Adults and Child(ren) under 6	0.02	0.14	0.07	0.25	0.04	0.21
Adults and Child(ren) under 17	0.07	0.26	0.20	0.40	0.14	0.35
Adults and Child(ren) over 17	0.07	0.25	0.10	0.30	0.08	0.28
Other	0.05	0.21	0.05	0.21	0.05	0.21
Female Adult and Child(ren)	0.03	0.17	0.05	0.22	0.04	0.20
Financial Shock?	0.51	0.50	0.18	0.39	0.33	0.47
Not Seeking Employm.	0.57	0.50	0.23	0.42	0.39	0.49
Starting Mortgage Debt	$40,587	$94,009	$80,965	$121,984	$62,405	$111,836
Starting HEL Debt	$1,218	$8,600	$1,824	$13,018	$1,545	$11,210
Has credit?	0.34	0.47	0.38	0.49	0.36	0.48

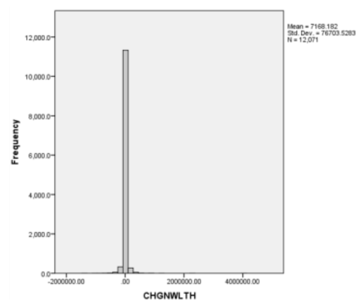

Figure 4.2 Unadjusted Sample

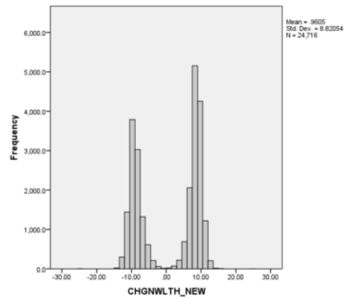

Figure 4.3 Log-linear Adjustment

CHAPTER 5: KEEPING UP VS. KEEPING AFLOAT

The previous chapter explored the chief question of this project: what are the fundamental causes of household wealth gains and losses? Furthermore, it began to address the second question of this work: to what extent does status spending affect American household wealth accumulation? In short, the findings revealed that status spending showed little effect on households' wealth.

But this finding hardly ends the story; we know that at least some households must spend steeply on recreational items, even if many in the general populace do not. What can we learn from our data about these households? What are the consequences of this elevated recreational spending? How do the consequences of this elevated recreational spending (i.e. "keeping up"), compare with the consequences of disadvantaged circumstances (i.e. "keeping afloat")?

In this chapter, descriptive statistics will be explored to delve deeper into the dialogue between keeping up and keeping afloat (KU/KA). The first section will start with an exploration of elevated status spenders, and the consequences of their status spending on wealth accumulation.

The second section will dissect the relative importance of status spending vis-à-vis disadvantaging circumstances in impacting wealth accumulation. In doing so, this section will summarize the analyses of this chapter and the last, and ultimately explore how the results of these analyses inform our understanding of human economic activity.

WHAT ARE THE CONSEQUENCES OF STATUS SPENDING?

This is a slightly different question than the one we have pursued so far. In the previous chapters we were interested in the general importance of status spending for explaining households' wealth accumulation. Our new task in this section will be to pursue the characteristics of households that spend an elevated percentage of their income on status items, regardless of whether these households have a large effect on how American households gain wealth overall. Put another way: even though status spending may be more limited than theorists like Schor and Frank expected, there is still much that might be learned from examining households that spend steeply on recreational goods.

How do we Identify Elevated Status Spenders?

Clearly, there is a keen theoretical interest in studying the nature of elevated status spenders. These households supposedly forgo financial safety because they are overwhelmed by social pressures. It is interesting then to explore what might induce these households to jeopardize their economic thriving. But to study households that spend "too much" on status goods, we first need a definition for what counts as "too much."

To start off, we should expect that everyone will spend *something* on recreational goods. Life would be very hard indeed if we spent nothing on personal enjoyment. In fact, even in areas where starvation is rampant, researchers have documented that money is spent on "non-essential" items like sugar (Banerjee and

Duflo 2007). This suggests that every human being – even if they are literally starving – feels compelled to spend *some* money on discretionary goods.

Accordingly, it is very hard to maintain the position that discretionary spending should be non-existent. However, for those concerned with "excessive" status spending, it's a tricky task to then turn and say exactly how much status spending counts as "too much." As a consequence, the language most often employed among status spending researchers involves households that are unhappy with their spending, rather than a clear technical definition for what level of spending counts as excessive.

In Chapter 2, the difficulties of defining status spending were already discussed. Ultimately, there can be no bright line distinction separating households who spend "too much" on status items from those who spend a "reasonable" amount. A more fruitful tack is to take a comparative approach. Specifically, we can examine households who spend relatively more on recreational goods than their peers. These "above-typical recreational spending" households (A.T.R.S. households) should tell us something about the consequences of status spending, without us needing to distinguish an exact line differentiating a "reasonable" amount of spending from an "excessive" amount.

Table 5.1 outlines the median spending, and median percentage of spending, that American households devoted to the status spending categories outlined in this project, arranged by decile groups. The table below uncovers the wide range of recreational spending accomplished in the U.S.

Table 5.1 Median Recreational Spending by Decile Group

Recreational Spending Decile Groups	Median % of Total Spending	Median $
1	.0254	$437
2	.0540	$1,120
3	.0686	$1,764
4	.0805	$2,459
5	.0903	$3,232
6	.1011	$4,185
7	.1149	$5,469
8	.1332	$7,451
9	.1574	$10,749.
10	.2482	$20,968

The median household in the top decile group (i.e. the 95th percentile of recreational spenders) devotes nearly one quarter of their income to recreational goods. The median household in the lowest decile group spends only 2.5%

In order to designate above-typical recreational spending, one method we might employ is to find the median consumption share devoted to status spending among US households, and then to examine households who spend more than this median level. This approach will tell us the half-way point in American recreational spending; dividing the population into the top and bottom half of status spenders.

The median consumption share devoted to status spending is .0969. This statistic is conveniently around 10%, making it a memorable benchmark. What's more, devoting 10% of spending to status items is a nicely attainable benchmark for measuring elevated status spending. While high-income households are more likely to spend at least 10% on status goods, a 10% consumption share is not totally out of the reach of low-income households. In fact, a third of households in the lowest income

decile spent more than 10% of their annual income on these items. Thus, devoting 10% of income to status goods serves as nice indicator of "moderate status spending," because it indicates a level of spending achievable by most households, but which half of households do not exceed.

Finally, there is another approach which is useful for describing elevated status spending. While the median household devotes about 10% of total spending to status items, this number is clearly not representative of households at varying income and age levels, or of different racial compositions. A more nuanced approach divides the sample into brackets split along the spectra of age, income, and race. This process must balance the desire for a large number of cells (i.e. different reference groups), while maintaining an appropriate sample size in each cell. For the present sample, it is possible to divide households into 50 brackets; divided into 5 spending quintiles, 5 age quintiles, and a racial designation of white vs. non-white (see technical appendix). By dividing households into these 50 groups, we can then determine households whose status spending is in the top half of their bracket, and households whose status spending level is in the bottom half. By doing this, we still split the population into two evenly sized groups, but now we have essentially controlled for age, income, and racial factors when designating our above-median status spenders.

The Consequences of Status Spending

We want to know if households that spend an above-typical amount on recreational goods and services end up with less wealth than those who spend a below-typical amount. This is a situation that is suited to our reference group measure of

above-median spending; because we want to know how households with elevated recreational spending fare, when compared to households in a roughly similar income, age, and racial bracket.

The table below shows the median amount of recreational spending and total spending for households whose recreational spending was in the top or bottom half of their reference group (i.e. those that spent above or below the median level of recreational spending found among their reference group). The table also shows the mean change in net wealth for each of these groups, along with the difference in values found in each column. The graphs below show the percentage share of total recreational spending, and total spending overall, for the above- and below-typical recreational spenders. The grey line in each graph shows the 50% mark, which indicates an equal share of recreational spending or overall spending for each reference group.

What do we learn about these above-typical recreational spenders? From the graph of recreational spending shares, we see that above-typical spenders contribute a significantly larger amount to the total recreational spending of their reference groups. This finding is not really surprising; after all, we've divided up the population into two groups, where the bottom group spends less on status items, and the top group spends more on status items. The higher group must, *de facto*, have a higher share of the status spending. It is notable however that the share of luxury spending is roughly similar among all of the reference groups. Looking at the difference in median status spending shown in Table 5.2, we see that the median A.T.R.S. household spends well

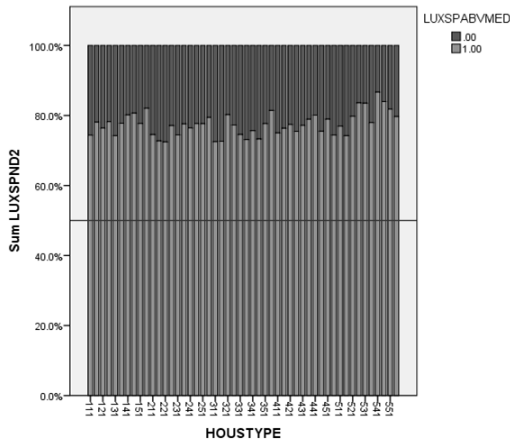

Figure 5.1 Percent Share of Recreational Spending by A.T.R.S Households and B.T.R.S. Households

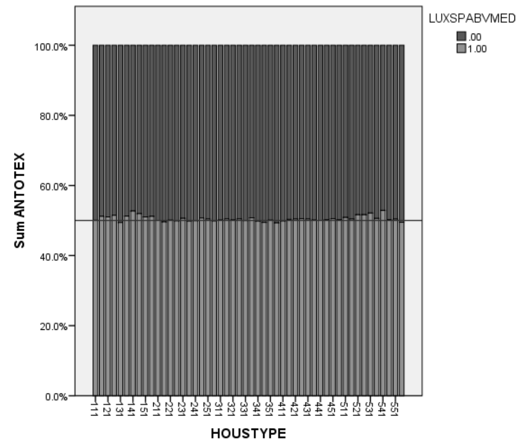

Figure 5.2 Percent Share of Total Spending by A.T.R.S Households and B.T.R.S. Households

Table 5.2 Selected Characteristics of A.T.R.S. and B.T.R.S. Households

	Median Status Spending	Median Total Spending	Mean ΔHNW
Above-Typical Recreat. Sp.	$6,018	$38,934	-$410
Below-Typical Recreat. Sp	$2,272	$38,661	-$277
Difference	$3,746	$273	-$133 (.923)

over $3,000 more on recreational goods than the median below-typical recreational spending (B.T.R.S.) household.

Turning to the graph showing total consumption share for each group, we see a very interesting finding: above-typical recreational spenders contribute a *virtually equal share* to total spending as do below-typical recreational spenders. This is confirmed in Table 5.2, where we see that the difference in median total spending between the groups is a trifling $270. How can this be? How can above-typical spenders have higher amounts of recreational spending, and yet roughly equal total spending, as below-typical recreational spenders? The logical answer is that above-typical status spenders must be *compensating* for their greater recreational spending with reduced spending somewhere else in their budgets.

Returning to Table 5.2, we see a last interesting finding: comparing average change in net wealth, there is not a significant difference in the average change between households whose recreational spending was in the top or bottom half of their reference group. These findings accord with all that we have seen so far. We've surmised that status spenders must compensate for their increased recreational spending by reducing other budgetary items. Higher overall spending is the hypothetical mechanism by which recreational spending reduces wealth (i.e. higher overall spending → lower saving → less wealth accumulated at the end of a year). If A.T.R.S households are not spending more on the whole, then this negates the likelihood that their elevated status spending would lead to reduced wealth accumulation.

What's more, combining the evidence of this chapter with the findings from the regression models in the previous chapter, we begin to see that the negative consequences of above-typical recreational spending are generally slight. Most status spending coefficients were insignificant in the models from Chapter 4, and on the whole they did not explain much of the variance in change in wealth. Thus, it appears that above-typical recreational spenders generally do not have a significant difference in their annual wealth gains or losses.

What Traits Characterize Elevated Recreational Spenders?

We've seen that households that spend an above-typical amount on recreational items do not seem to suffer too greatly for this increased spending. How is this the case? By delving more deeply into their spending portfolios, we can gain insight into how above-typical spenders are able to afford comparatively higher recreational spending. Furthermore, by examining the number and types of recreational goods on which these households spend, we can learn about the factors compelling them to spend an elevated amount on these recreational goods.

To delve into the differences between A.T.R.S households and B.T.R.S households, the following table compares the difference in their spending on various aggregate budgetary areas, such as transportation, education, entertainment, etc. These budget areas are summary-level consumption aggregates produced by the BLS. Positive numbers indicate that A.T.R.S households spend more than B.T.R.S households, and negative numbers indicate that they spend less.

Table 5.3 Difference in Average Spending between Above- and Below-typical R.S.

	Mean Difference	**Sig. (2-tailed)**
Food	$1,453.60	.000
Alcoholic Beverages	$205.97	.000
Housing	$255.10	.000
Apparel	$520.43	.120
Transportation	-$2,051.94	.000
Health costs	-$219.70	.000
Entertainment	$1,859.52	.000
Personal care	$151.34	.000
Reading	$41.46	.000
Education	-$316.60	.000
Tobacco	-$35.43	.000
Misc. Expenditures	-$37.49	.000
Cash contributions	-$273.66	.202
Personal insurance	$132.43	.007
Total spending	**$1,685.00**	**.136**

Comparing the differences in their spending portfolios, we see two notable findings. First, the mean difference in total spending for the groups is not statistically significant; which affirms the observation from Table 5.2 that their total spending is roughly equivalent. Second, we see that (as would be expected) A.T.R.S. households have much higher mean spending on recreational categories like entertainment, apparel, alcoholic beverages, food (because of dining out), and personal care. Conversely, we see that these above-typical spenders have reduced mean expenditures on education, housing, health costs, and in particular, transportation.

Why might these two types of households differ so greatly in terms of their transportation costs? By examining the components of transportation costs we can see

why A.T.R.S. households have such reduced transportation expenditures. The following table outlines selected characteristics related to transportation costs. As with the previous table, positive numbers indicate that A.T.R.S. households spend more than B.T.R.S. households, and negative numbers indicate the opposite.

Table 5.4 Difference in Average Spending on Select Transportation Costs between Above- and Below-typical R.S. Households

	Mean Difference	**Sig. (2-tailed)**
Percent of HHs purchasing a vehicle?	-.104	.000
If HH purchased a vehicle, how much did they spend?		
Dollars	-$3,231	.000
Percentage of Total Spending	-.086	.000

What do we see? Ten percent fewer A.T.R.S. households purchased a vehicle (new or used) during their survey year. Furthermore, among those households who did purchase a vehicle, A.T.R.S. households spent over $3,000 less on that vehicle on average; which amounts to around 9% less of their total spending devoted to the vehicle purchase.

The direction of causality in this relationship is impossible to determine. It could be that those households who like to spend on recreational goods do not see an interest in purchasing a car as frequently, or in spending as much when they do buy one. Alternately, it could be that households that purchase a vehicle must tighten their budgets, and hence recreational spending will be lower. Either way, this finding seems dissonant with the expectations of the status spending theories. Households are

compensating for a large purchase by reducing their recreational spending. No matter what the motivation, this is the kind of intelligent management of finances that status-crazed households are supposedly unlikely to enact.

What might we learn about the other areas where A.T.R.S. households spend less: education, housing, and healthcare? One natural explanation for these differences might be that above- and below-typical R.S. households have differing family compositions. Table 5.5 shows the family compositions of the two groups.

Table 5.5 Difference in Family Composition between Above- and Below-typical R.S.

	Single Person	Single Adult and Child(ren)	Adult Couple	Adults and Child(ren)	Other
Below-Typical Recreat. Sp.	12.2%	6.9%	26.9%	52.2%	1.8%
Above-Typical Recreat. Sp	14.9%	6.3%	32.0%	45.6%	1.2%

We see in Table 5.5 one reason why A.T.R.S. households likely have lower education, housing, and healthcare costs: they are composed of roughly 3% more single households and 5% more childless adult couples. Because they are childless, these households are likely to devote less income to education, housing, and medical costs than their counterparts, and thus are likely to have more discretionary income.

Finally, looking at Table 5.6, we see a final reason why A.T.R.S. households have lower housing costs. Namely, 8% more of them own a home without carrying a mortgage. Obviously, if a household does not have a mortgage to pay, their housing costs will be lower.

Table 5.6 Difference in Tenure Composition between Above- and Below-typical R.S.

	Mean Difference	**Sig. (2-tailed)**
Percent of HHs with a home and no mortgage?	-.076	.000

Do Recreational Spenders Buy More Types of Recreational Goods?

Do A.T.R.S. households have a "taste" for recreational spending? Do they tend to buy a wider variety of recreational goods? Or are they mainly like B.T.R.S. households, except they spend more on a single type of recreation?

From the CE interview data, it can be somewhat hard to determine the exact number of particular goods a household purchased of a certain type. While the diary data are far better, there is no way to see how much a household spent annually (as discussed in Chapter Three, the diary data only cover a two week period).

There is however, another way we might see the breadth of a household's recreational spending. Specifically, we can find the median spending on recreational goods found among each of our 50 reference groups. Then (as before) we can identify households that spent an above-typical amount on each particular good. By examining the number of goods on which a household was willing to spend an above-typical amount, we can see which types of elevated spending are most frequent among A.T.R.S. and B.T.R.S households.

Table 5.7 Proportion of Above- and Below-typical R.S. Households with Elevated Spending on Recreational Goods

Count of Above-typical Recreational Categories	B.T.R.S.	A.T.R.S.
0	13.4%	0.0%
1	26.0%	4.7%
2	26.2%	15.8%
3	18.4%	22.2%
4	9.6%	23.1%
5	4.3%	18.1%
6	1.8%	10.3%
7	0.4%	4.2%
8	0.0%	1.4%
9	0.0%	0.2%
10	0.0%	0.1%

It is important to note that spending an above-typical amount on a particular type of good does not mean that a household will ultimately be an A.T.R.S. household. It is possible to spend an above-typical amount on an individual good, without spending an above-typical amount on all recreational goods combined.

If we examine the number of goods on which a household is willing to spend an elevated amount, we see that A.T.R.S. households tend to spend an above-typical amount on about two more categories than B.T.R.S. households (1.83 more on average, p=.000). Furthermore, looking at Table 5.7, we see that far more A.T.R.S. households are willing to spend an elevated amount on four, five, six or even seven goods, than B.T.R.S. households. This indicates that above-typical spenders are not just focusing their increased spending on one type of recreational good. Rather, they have a tendency to spend on a greater breadth of goods than their B.T.R.S. peers.

HAS STATUS SPENDING TRENDED UPWARD HISTORICALLY?

In the regression models from the previous chapter and in the tables above, comparisons were drawn between those who spend more on recreational items and those who spend less. These analyses show that households who spend more on recreational goods, in any given year, do not fare significantly worse than households who spend less.

However, these analyses fail to raise a wholly different and very interesting issue: what if all households were drifting upward in the amount they spent on recreational goods? Perhaps in any given year above-typical recreational spenders do not fare worse than below-typical spenders; but what if *across the years* there has been a secular trend toward higher recreational spending, and less accumulated wealth? This argument is very much along the lines of what Robert Frank has argued regarding spending “cascades.” In his work, Frank describes how Americans have steadily increased their spending to keep pace with the richest households; and that despite this increased spending, we are all generally worse off.

Has this been the case? The subject of Americans’ financial well-being is hotly debated in a wide variety of academic disciplines. All manner of stances have been taken, with evidence provided to show differing outlooks on how Americans have fared in recent years (Slesnick 1994; Edin and Lein 1996; Federman and al. 1996; Slesnick 2001; Charles 2006; Kreuger and Perri 2006; Meyer and Sullivan 2006). The following analyses will not attempt to wade into such murky waters. However, they will endeavor to show how American recreational spending has

changed in recent years, and how this spending might have affected households' wealth accumulation.

Have Americans Increased their Spending on Recreational Goods?

The following figure shows average aggregate spending on certain goods described in the official tables published by the BLS. The values start in 1984, because this is when the BLS first conducted the CE on a routine basis. Aggregate spending is divided by aggregate income to reflect the proportion of income devoted to each type of spending. For the sake of comparability, Figure 5.4 represents each year's value as a proportion of the first year (1984 = 1.0).

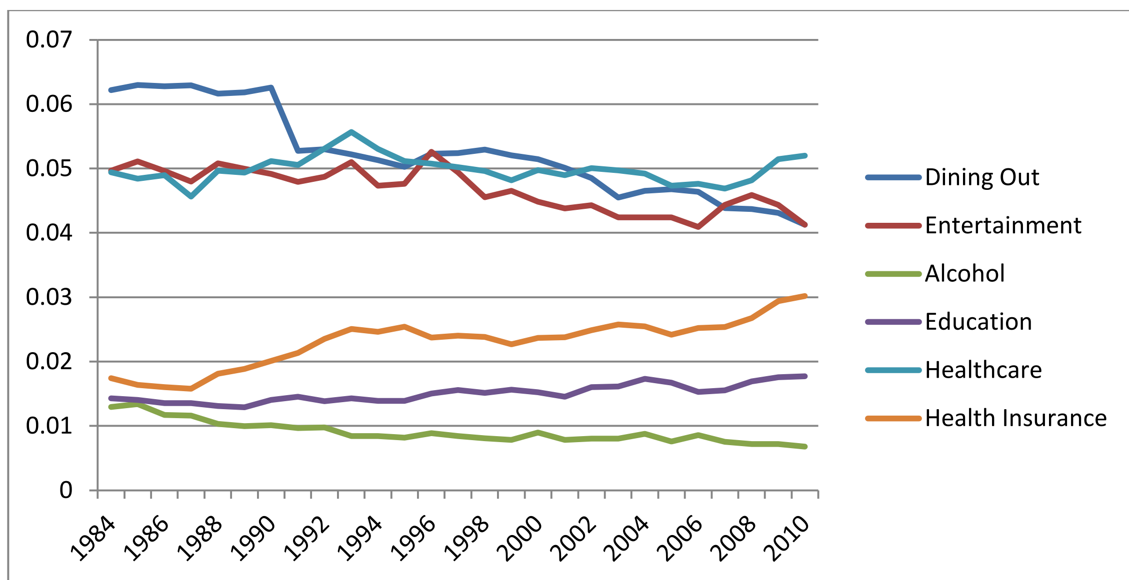

Figure 5.3 Average Aggregate Spending on Selected Goods as a Percent of Total Spending (1984-2010)

Surprisingly, when we look at aggregate spending on various recreational items we see that they have declined as a percentage of annual income, across the

board. Entertainment spending, dining out, alcohol, even housing – all have declined as a proportion of households' income. These findings are surprising, given the pessimistic imagery employed by the likes of Schor and Frank regarding the "boom" in status spending (Frank 1999, cht. 2).

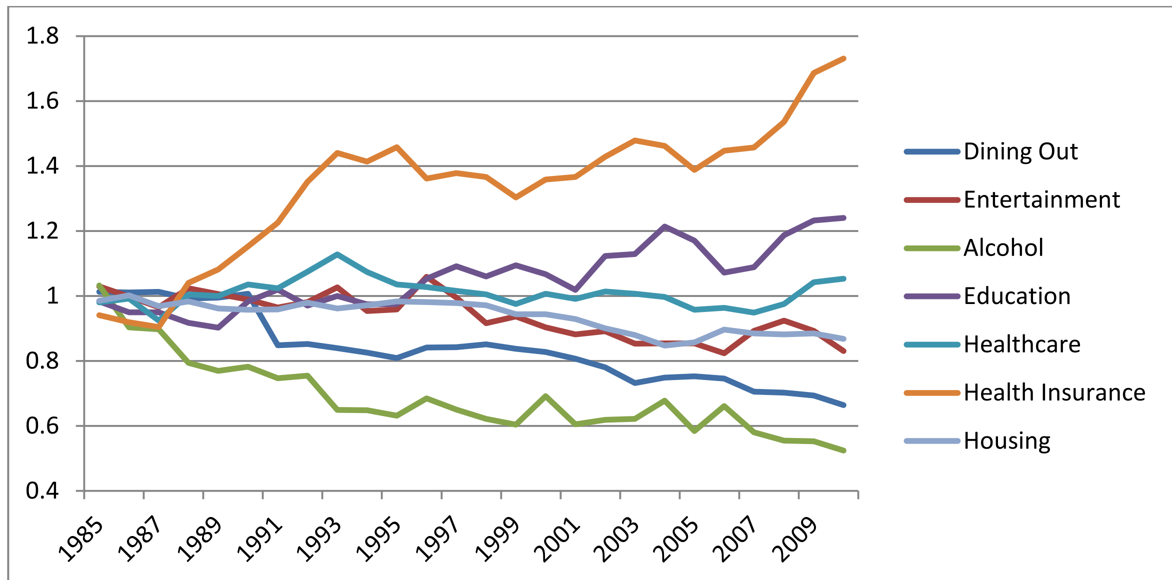

Figure 5.4 Average Aggregate Spending on Selected Goods as a Proportion of the Spending in 1984 (1984-2010)

Looking at the other budgetary areas, we see that most of the proportional increases in spending are for decidedly non-recreational items like education and health insurance.

In short, it seems evidently clear that households have not been ramping up their recreational spending in advance of their incomes. Quite the opposite; growth in households' incomes has outpaced their recreational spending. Given this context, it seems hard to understand where the impression was created that Americans have become increasingly irresponsible with status spending.

Still, even if recreational spending has declined as a proportion of incomes, might it simply be that the top of the income spectrum has brought up the average? Have the rest of Americans truly decreased their status spending? The following figure shows the percent of combined aggregate spending devoted to alcohol, entertainment, and dining out, for each income quintile. As in Figure 5.4, the values are represented as a proportion of income, in proportion to the first year (1984 = 1.0).

As the figure clearly shows, the combined spending on alcohol, dining out, and entertainment has dropped for each income quintile. It has dropped most precipitously for the bottom 20% of the income spectrum.

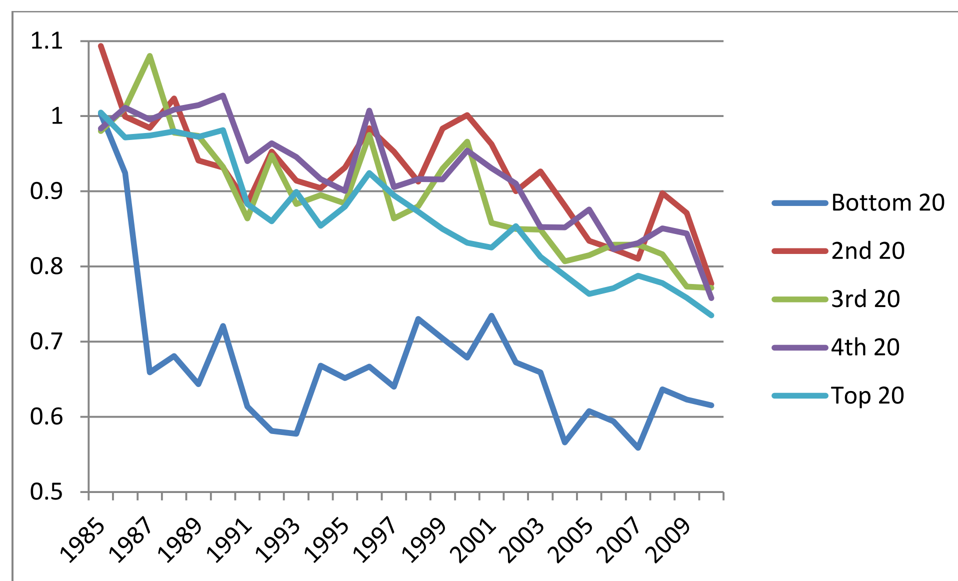

Figure 5.5 Average Aggregate Spending on Selected Goods as a Percent of Total Spending by Income Deciles (1984-2010)

Based on this figure, it appears that the drop in recreational spending is not the result of higher-income households skewing mean income.

Are we depleting our Wealth?

The growing inequality in American personal wealth has received so much attention it need not be addressed here. It has been firmly established that the dispersion between the richest and poorest Americans has grown consistently over many decades. However, we will need to briefly touch upon the subject of wealth accumulation, because we are concerned with the effects of recreational spending on gaining wealth.

In particular, it has been argued that American households have depleted their wealth in order to live "above their means." To embrace such an idea we should first consider: have Americans depleted their wealth? The following figure is based on data from the SCF. It shows the square root of the change in median, inflation-adjusted net wealth for each net worth decile, over seven three-year periods, starting in 1989. The square root of change in wealth is shown for the sake of interpreting both small and large changes in the same figure.

The figure makes manifest the common finding that the majority of wealth increases went to the top wealth decile. They also reflect that the lowest decile of net worth experienced consistent losses. These losses were small on an absolute scale, but proportionally quite large. Thus, the previously documented inequality in fortunes is evident.

The deleterious consequences of this growing inequality have been treated elsewhere (Oliver and Shapiro 1995; Braveman 2007; Neckerman and Torche 2007). For the purposes of this project though, it is notable that nine out of ten decile groups

saw an improvement in their wealth between 1989 and 2007. If 90% of Americans saw an increase in their wealth, it seems hard to maintain the crude assumption that Americans are indiscriminately depleting their wealth through profligate spending.

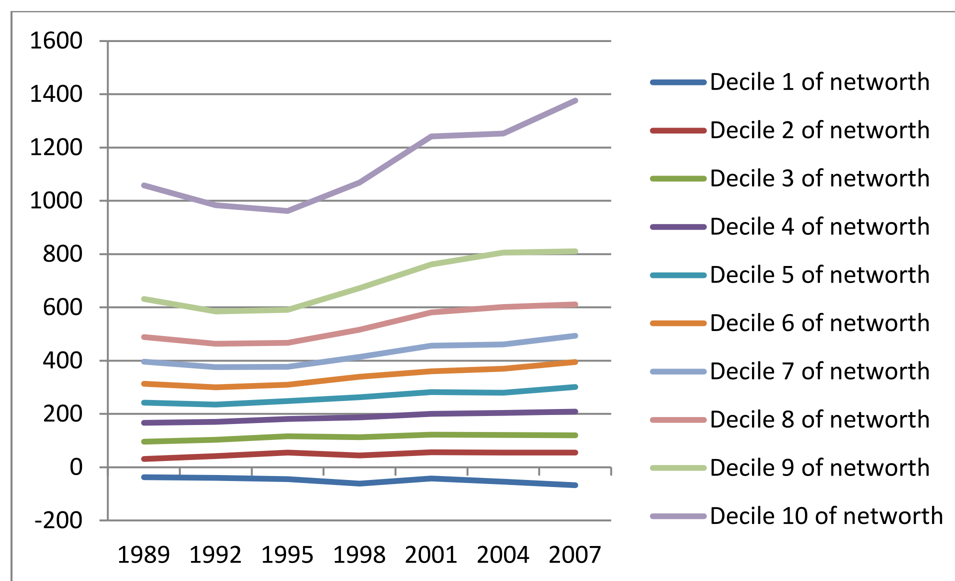

Figure 5.6 Square Root of Change in Median, Inflation-adjusted Net Wealth by Net Worth Decile since 1989

Of course, other considerations can (and should) be brought to bear when interpreting these findings. The "gains" of some Americans were quite small, and they might not have survived the recession of 2008-2009 (we must wait for the 2010 SCF to see); the worst-off decile showed persistent losses in wealth; Americans might have accumulated more wealth had they not spent as much on recreational items; the inequality in their gains might have been reduced had they not spent as much. Still, the most vulgar interpretation of an "expenditure cascade" holds that Americans have been *losing* wealth because of their status spending. From what we've seen, most

households have not been losing wealth at all; and for those who have, it seems unlikely that this was due to status spending.

“KEEPING UP” VERSUS “KEEPING AFLOAT”

Based on the evidence collected in this chapter and the last, we have gained a comprehensive picture of how status spending affects wealth, and how its effects compare with the effects of disadvantaging circumstances. After reviewing this evidence, we are confronted with several important questions.

Disadvantaged Circumstances vis-à-vis Recreational Spending?

How much more do disadvantaged circumstances affect households than the pull of recreational spending? As was mentioned in the introduction, the point of this work is not to say that one side of the KU/KA dialogue is “correct,” but rather to empirically explore the extent that each kind of factor affects households in the current context of the United States. By reflecting on their comparative power to influence individuals, we hoped to gain a better understanding of which factors are the most important influences on wealth stratification.

It has already been shown that there are clear negative consequences to disadvantaged circumstances, in the last chapter. To draw comparisons with the results from this chapter, the figures above show the mean bank account balances of households in income deciles broken down by Black racial status (Black vs. non-Black), poverty status, job loss status, and above-median spending status (i.e. whether a household devoted greater than 10% of their spending to recreational goods).

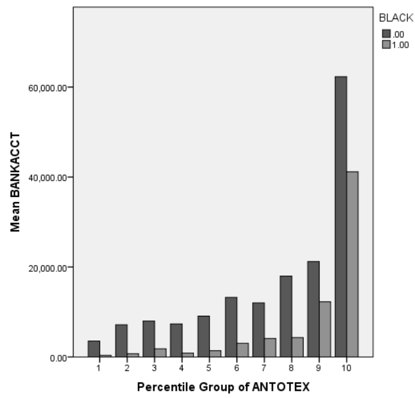

Figure 5.7 Mean Bank Account Balance for Income Deciles by Black Racial Status

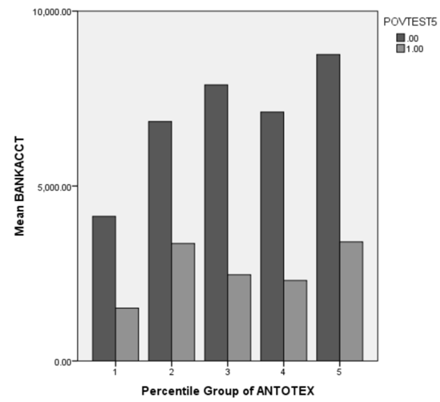

Figure 5.8 Mean Bank Account Balance for Five Income Deciles by Poverty Status

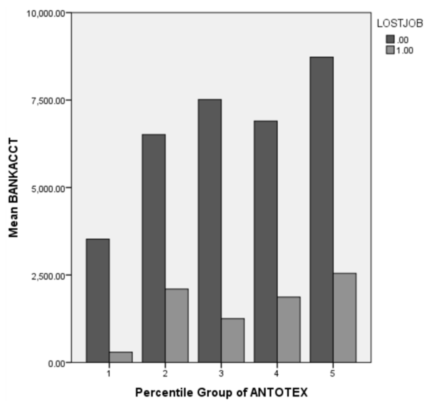

Figure 5.9 Mean Bank Account Balance for Five Income Deciles by Job Loss Status

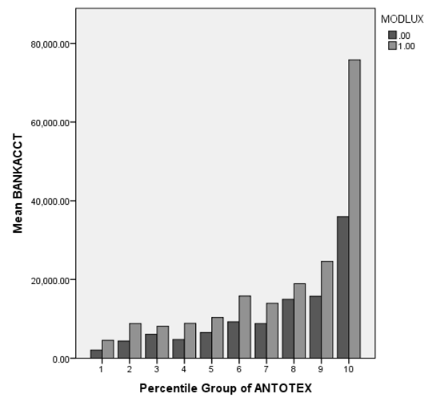

Figure 5.10 Mean Bank Account Balance for Income Deciles by Above-Median R.S. Status

Above the median income, there were too few households in poverty or who lost their job to provide reliable estimates. Hence, in the figures for poverty status and job loss, only five deciles are shown.

These figures graphically summarize the combined evidence we have seen so far – the consequences of disadvantaged circumstances are considerably negative; while in contrast, the effects of spending an above-typical amount on recreational goods are not.

Do "Status Spenders" Exist?

Another important question raised by our findings is: do status spenders exist? Better yet, do they exist in the way described by Schor and Frank? Based on all available evidence – apparently not. The reasons why certain households spend comparatively more on recreational goods appear disconnected from an overriding obsession with social status. Unlike the unwitting overspenders described by Schor, these households seem to modulate spending in accordance with their means. In fact, many of these elevated spenders have greater discretionary income for commonplace reasons: they have no children, they have paid off their mortgage, they have spent less on vehicles, etc. What's more, the supposed toxic effects of status spending do not bear out. Households with elevated recreational spending appear to do as well, or slightly better than, households with less recreational spending.

Similarly, the expectations of Frank were not born out. There is no evidence that households are consumed with "luxury fever." In particular, it is hard to maintain that households have been under the sway of status spending cascades in recent

decades, when by all accounts recreational spending has steadily decreased as a proportion of households' incomes. Furthermore, the areas which have seen the most growth have been rather un-luxurious expenses, e.g. health insurance.

Certainly, there are households that spend more on recreational goods, and a small proportion of these households no doubt have a serious problem. But if most "status spenders" do not suffer for their heightened recreational spending, and if they compensate for their elevated spending with reasonable adjustments, then we must confront the possibility that these households are not "status spenders" at all.

CHAPTER 5: TECHNICAL APPENDIX

The first tables below outline cut points in age, income and race used to construct the 50 recreational spending reference groups. Additionally the final table shows median recreational spending, and percentage recreational spending, for each of the 50 reference groups.

Table 5.8 Cut Points for Age and Income Quintiles

Quintiles	Age Range	Income Range
1	16-36	$0 - $21,238
2	37-46	$21,239 - $32,470
3	47-55	$32,471 - $46,156
4	56-66	$46,157 - $68,208
5	67-Highest	$68,209 - Highest

Table 5.9 Racial Designations

Race
White
Non-White

Table 5.10 Median R.S. and Percent R.S. for each Reference Group

Reference Group		Median Percentage Spending	Median Spending
Income Quintile 1			
Age Quintile 1	White	.0966	$1,477
	Non-White	.0753	$1,159
Age Quintile 2	White	.0767	$1,127
	Non-White	.0644	$1,051
Age Quintile 3	White	.0801	$1,187
	Non-White	.0653	$924
Age Quintile 4	White	.0801	$1,155
	Non-White	.0642	$911
Age Quintile 5	White	.0822	$1,176
	Non-White	.0602	$754
Income Quintile 2			
Age Quintile 1	White	.1018	$2,790
	Non-White	.0833	$2,221
Age Quintile 2	White	.0923	$2,558
	Non-White	.0684	$1,851
Age Quintile 3	White	.0918	$2,487
	Non-White	.0749	$1,948
Age Quintile 4	White	.0956	$2,584
	Non-White	.0741	$1,937
Age Quintile 5	White	.1064	$2,740
	Non-White	.0693	$1,818
Income Quintile 3			
Age Quintile 1	White	.1086	$4,262
	Non-White	.0859	$3,260
Age Quintile 2	White	.0969	$3,813
	Non-White	.0850	$3,191
Age Quintile 3	White	.0947	$3,648
	Non-White	.0790	$3,113
Age Quintile 4	White	.1095	$4,203
	Non-White	.0830	$3,136
Age Quintile 5	White	.1031	$3,914
	Non-White	.0891	$3,295
Income Quintile 4			
Age Quintile 1	White	.1114	$6,050
	Non-White	.0872	$4,752

Table Continued…

Reference Group		Median Percentage Spending	Median Spending
Age Quintile 2	White	.1106	$6,189
	Non-White	.0875	$4,754
Age Quintile 3	White	.1084	$5,970
	Non-White	.0816	$4,468
Age Quintile 4	White	.1175	$6,539
	Non-White	.0920	$4,964
Age Quintile 5	White	.1169	$6,432
	Non-White	.1130	$6,117
Income Quintile 5			
Age Quintile 1	White	.1128	$9,825
	Non-White	.0892	$7,610
Age Quintile 2	White	.1258	$11,683
	Non-White	.1012	$9,633
Age Quintile 3	White	.1192	$11,563
	Non-White	.0956	$9,842
Age Quintile 4	White	.1308	$12,849
	Non-White	.0900	$8,196
Age Quintile 5	White	.1366	$13,248
	Non-White	.1185	$10,229

CHAPTER 6: CONCLUSION

Across five chapters, we've looked at the general issue of wealth accumulation. In the last chapter, we stepped down a level to see whether one type of spending, recreational spending, strongly affected wealth. What do we make of this bewildering mountain of analysis? What does all of this tell us about the nature of wealth accumulation in the contemporary U.S.? In this final chapter we will summarize what our results mean for economic theory.

We will also ask ourselves a pressing question: how it is that so many individuals believe that Americans have a problem with status spending, when the best economic evidence suggests the opposite? Additionally, we will discuss the implications of our findings for current policy debates, and how these findings inform current theories of economic activity.

WHAT HAVE WE LEARNED?

We've seen also that disadvantaged circumstances predict households' wealth outcomes much more than status spending. Beyond seeing the prevalence of these factors, a key point of this work was to examine the expectations of theories regarding consumers and their wealth accumulation, with the ultimate aim of evaluating and refining our assumptions about human economic behavior. What do findings in previous chapters tell us about our theories of human economic activity?

A chief finding of this work is that American consumers are not as irrational as status spending theories contend. Certainly, no human being is the perfect "rational

actor" presumed to exist in the most unsophisticated of neo-classical economic theories. However, the findings from this research suggest that some sub-fields of sociology may be overestimating consumers' irrationality.

The promulgation of this over-emphasis on consumer irrationality may be embroiled with the legacy of economic sociology. With the wide gulf that opened up between sociology and neo-classical economic theory in the 1970s, many sociological theories struggled to emphasize the ways in which human beings were not individualistic, shortsighted, rational actors (Swedberg 1991). In their attempt to "turn the stick the other way" (to borrow a concept from Bourdieu (1993, p. 31)), many sociologists became enamored with proving the boundedness of human calculation, in opposition to the overly-rational individual beloved by economists of the time (Fourcade 2007).

However, as Granovetter warned in his seminal work "Economic Action and Social Structure: the Problem of Embeddedness," we must steer clear of both the over- and under-socialized human actor (1985). When consumers are described as slaves to conspicuous consumption, unable to see the consequences of their actions, this strays too far in the direction of the over-socialized actor. Of course, the opposite view of the under-socialized actor is also not correct: Americans are not ascetic automatons, unconcerned with social mores. This is shown by the finding that many households devote a significant portion of their total spending to recreational items, even among the lowest income groups. Steering between these two extremes, American consumers appear to live embedded within their particular reference groups, and make economic

decisions within the constraints of their social milieu. Hence they appear to be the boundedly-rational, vigorous, socially-aware actors recognized to exist in economic sociology.

This research also makes evident that current theories of consumer behavior often verge on moralistic terms. For instance, the luxury-spending theory of economist Robert Frank emphasizes an individual's heedless, reflex impulse to buy status goods. Conversely, the arguments of Elizabeth Warren often emphasize families struggling to keep up with expenditures for their children. Both the paradigm of the "mindless status spender," and of the "virtuous but disadvantaged family," are over-simplified caricatures.

In the final analysis, annual wealth losses are primarily explained by encountering a financial shock or other disadvantaging situation; suggesting that Americans generally lose wealth when meeting unexpected or adverse circumstances. So in the end, people do not seem to be the wanton, status-grubbing spendthrifts who are compelled to "keep up" at all costs; however, they are also not simple, virtuous, defensively-spending parents either. There are a number of reasons why households gain or lose wealth, and many have little to do with protecting one's family (e.g. macroeconomic shifts affecting securities owners). To advance research into the relationship between consumption and wealth, we must leave behind the tendency to employ moral caricatures.

Finally, the findings from this research also reveal the rich complexities of households' financial transactions, and also the inadequacy of current sociological

research to account for the breadth of those transactions. Few sociological theories of consumer behavior, or consumer well-being, account for households' financialized wealth. Given the present findings, this seems to be a critical oversight – debt and investments have important influences on households' economic decisions and well-being.

FROM WHENCE THE IDEA OF THE PROFLIGATE SPENDER?

One of the most surprising aspects of this project must be the finding that American status spending has declined as a percentage of income over the last three decades. Given this finding; one wonders how academics, public figures, and common wisdom all hold that Americans are ramping up their status spending. There are a number of ways that this common conception might have gained widespread adoption.

The "Protestant Ethic"

Theorist Max Weber argued that modern capitalist societies are influenced by a "Protestant ethic," which directs them to save money as a moral duty. He further argued that the historical roots of this moral concern were religious; but that these roots are now obscured and of little consequence. What was once a religious preference for sacrifice has now become an obligation – as Weber poetically put it: "the care for external goods should only lie on the shoulders of the 'saint like a light cloak, which can be thrown aside at any moment.' But fate decreed that the cloak should become an iron cage" (2002 [1905]).

Certainly, this historical concern with financial restraint influences modern anxieties about saving. Because saving is culturally linked with salvation, it's not surprising that Americans are anxious about the proper limits of their consumption. In fact, this anxiety might help to explain some of the findings from Schor's research among "Telecom" employees.

Specifically, in her work Schor asked her respondents to self-evaluate the extent of their saving, and also how respondents' believed their finances compared with a self-chosen "reference group" (1998, pp. 74, 99). As many treatises in cultural methodology show, self-evaluations are often exercises in moral meaning, not precise factual statements informed by extensive evidence (Wuthnow 1989). When Schor asked her respondents to evaluate their level of saving, she is activating frames of meaning having to do with moral worth (e.g. "responsibility"), and comparability with others.

In comparison, the data in the CE are a bit more practical. Of course, it would be foolish to state that the responses in the CE are free from the "bias" of cultural frames – every survey based on respondent recall will suffer from mistakes due to salience (e.g. it's easier to remember frequent purchases, over infrequent ones) and also sensitivity (e.g. respondents appear to underreport alcohol expenditures, as this is delicate subject) (Garner, Janini et al. 2003; Battistin 2004). Still, one is bound to get a better sense of behavior by asking respondents to report the balance of their checking account on two separate months (also encouraging them to consult records), than if one asks respondents "how much do you expect to save?"

This difference in methodology is one of the likely reasons why the conclusions of the present research differ from those of Schor’s work. If Schor’s questions were activating moral feelings of anxiety regarding spending, then we should not be surprised that her respondents were quite pessimistic when dwelling on this subject. On the other hand, when respondents in the CE report their bank account balances, their purchases over recent months, and their change in asset and debt values, one may find (as the present research has) that this anxiety of Americans is founded more on a cultural legacy than on real differences in wealth outcomes.

The Savings Rate and “Financialization”

Over the past two decades, there has been a steady drumbeat of negative news regarding Americans’ aggregate savings rate. Throughout the 1990s, news outlets published stories about a dwindling national savings rate, and in 2006 came the scandalous discovery that the American savings rate had gone negative – indicating that as a nation, more money was collectively leaving our bank accounts than was coming in (Associated Press 2006). What’s more, between 1980 and 2010, outstanding per-capita consumer credit grew fivefold (Federal Reserve Board of the United States 2011).

It is not hard to see how Americans would hear this news and come to the conclusion that overspending must be rampant. After all, for the majority of this country’s history saving has been the primary vehicle of wealth accumulation, and Americans attach a special moral valence to saving (e.g. “a penny saved, is a penny

earned"). However, as is often the case with popular news stories, there are reasons to be skeptical about the interpretation of the reported savings rate.

First off, these numbers are frequently revised post-hoc. In fact, recent revisions have stated that the savings rate never did actually dip below zero, as the news media reported in 2006. A similar situation occurred in 2001 when the preliminary savings rate was estimated to be less than zero, and yet revised estimates later showed this not to be the case (Marquis 2002).

More importantly, however, the savings rate number has become increasingly disconnected from Americans' wealth prospects. While the common understanding of wealth may hold that it is primarily increased through saving, recent changes in the U.S. economy have shifted the ways in which households gain wealth.

Sociologist Gerald Davis has described these shifts as the "financialization" of the U.S. economy (Davis 2009). Specifically, Davis argues that wealthy Americans are moving away from saving as their dominant method of wealth accumulation, and increasingly are placing their faith in market-based investments (e.g. homes, securities, etc.). What's more, wealthy households are no longer alone in the market. Between 1983 and 2001, participation in the stock market (directly or indirectly) grew from ~20% of households to over half of them (Davis and Cotton 2007).

This shift toward investment has important consequences for our interpretation of the aggregate savings rate. In fact, when the savings rate appeared to be hitting rock bottom, several papers were published by Federal Reserve economists addressing the issue (Marquis 2002; Reinsdorf 2007). Not surprisingly, they found that there

were fairly logical reasons why the rate had dropped, which were counterpoised to the public's pessimism.

As shown in the technical appendix at the end of this chapter, the low savings rate was more than compensated for by capital gains from investments. This indicates first that Americans were not losing wealth during this time (despite their lower saving), and second, that Americans appeared to be taking one form of wealth gain as a replacement for another form (of course, aggregate statistics are not the best judge of individual behavior, so this research is only suggestive). Regarding saving as equivalent to capital gains might be a questionable belief; nonetheless, this suggests a reason why households were intentionally lowering their savings rate: they were saving less because they saw the value of their investments increasing. This conflicts with the common perception that Americans were unwittingly decreasing their savings in order to overspend on status goods, without heed to their financial situation.

Given this evidence, we can see several reasons why the American public may have a misguided understanding of their own financial situation. For one, many Americans may be uncomfortable with the recent shift toward financialization. This movement toward perpetual use of credit conflicts with the older notion that one should rid oneself of loans as soon as possible.[19] As discussed in the last section, Americans are susceptible to anxiety about spending and saving, and news of a declining savings rate plays into that susceptibility.

A second reason why Americans might be misguided is simply due to a general misunderstanding of personal finance. To many, the dropping aggregate

savings rate indicates a reduction in wealth in favor of greater spending; however, as was recently discussed, the situation is more complex. Even if this understanding of the savings rate is fallacious, it nonetheless explains why many Americans might believe that profligate spending has increased.

A Negative Economic Climate

As with the savings rate, there has been a steady stream of news reports showing how rates of poverty and bankruptcy have increased in the United States. Unlike the savings rate, however, there is no good reason to believe that these trends are superficial – an increasing proportion of households do appear to be living in poverty and sustaining personal bankruptcy. For instance, between 1980 and 2010, the personal bankruptcy rate increased four-fold (U.S. Federal Judiciary 2011).

Furthermore, there has been other bad news. Americans are also working longer hours (Evans, Lippoldt et al. 2001), unemployment has been at high levels for record lengths of time (Bureau of Labor Statistics 2012), and recent macroeconomic swings have brought unprecedented recessions. Overall, the American public has a historically low perception of the health of the U.S. economy (Conference Board 2012).

However, while these trends are indicative of a worsening fate (especially for the worst-off Americans), none have a straightforward bearing on the situation of status spending. While the common mythos may reckon that these trends result from increased wasteful spending; neither poverty, nor bankruptcy, nor unemployment are likely connected with overspending on status goods. For instance, the rise in

bankruptcy is mostly explained by the increasing use of credit mentioned in the last section, as well as by changes in the legal structure of bankruptcy (Athreya 2004; Livshits, MacGee et al. 2006). Thus, while Americans may be rightfully sensing troubles in the current economic climate, connecting these problems with status spending seems unwarranted. Nonetheless, this attribution may partly explain why Americans believe status spending has grown in recent years.

It may seem hard to believe that the public is capable of making this leap from personal troubles to societal ones. However, evidence of this kind of attribution error can be found from various sources, including the comments of candidate Barack Obama during the mid-recession election occurring in 2008:

> If we pretend like everything is free, and there is no sacrifice involved, then we are betraying the tradition of America. I think about my grandparents' generation coming out of a depression, fighting World War II. You know, they've confronted some challenges we can't even imagine. If they were willing to make sacrifices on our behalf, we should be able to make some sacrifices on the behalf of the next generation. (2008)

Assessing the financial crisis, the soon-to-be President determined that Americans needed to sacrifice, stating that not “everything is free.” It’s easy to see how such verbal imagery might lead citizens to equate national sacrifice with personal sacrifice, and furthermore, to falsely equate societal problems like poverty with personal problems like overspending.

Public Debt

A final way that Americans might have gained a misguided view of status spending has to do with growing public debt (i.e. governmental debt). As with the

other factors previously discussed, recent decades have brought a steady flow of news coverage about the skyrocketing federal deficit. Of course, it is wholly true that between 1980 and 2010 the debt of the federal government grew fourteen times over (Office of Management and Budget 2011). This growing debt has led many public figures to decry wasteful spending in the U.S. government.

In turn, it is possible that many Americans have mistakenly translated this opinion about the wasteful spending of the federal government into an opinion about the wasteful spending of U.S. citizens. It's not hard to see how Americans might see the fate of the federal government as a reflection of the lifestyles of its citizens.

Of course, there is no demonstrable link between personal spending and the federal deficit. Taking loans at the household level will not increase the federal debt, and curbing personal overspending will not reduce federal spending. Still, the general association of personal spending with the spending of the federal government is another way that Americans might be primed to believe that Americans have a "spending problem."

POLICY IMPLICATIONS

The topic of this work concerns our very identity as a nation. Are we profligate spenders, truly incapable of managing our own lives? If not, then to what should we ascribe our financial successes and failures?

These are heady inquires; yet these questions do have more practical correlates. For instance, our vision of "who we are" connects directly with what

assistance we give those who have financial troubles. Do they need financial literacy? Should they receive monetary assistance? If so, how much and in what form?

These questions have been debated by many in the public sphere. As the examples from the introduction show, there are prominent figures in the public sphere under the impression that Americans have a serious problem with "delaying gratification." These public figures argue that Americans have a problem with status spending, and that this problem is to blame for many of their financial woes. Rick Santelli and Suze Orman both claim that Americans need to shore up their spendthrift ways, and that current economic hardships are an important means of teaching households to be fiscally responsible. Orman argues that Americans need a strong lesson in financial literacy. Santelli says that providing government assistance is just teaching wastrels that their overspending is acceptable.

Had the present research found that Americans suffer greatly from status spending, we might judge these public figures to be correct. However, all evidence has suggested that our financial failures (and many of our financial successes) are related to factors exogenous to status spending – often these factors are more connected with a system of social privilege than with the compulsive spending of any individual.

For instance, a major finding of this work is that households with varying resources differ greatly in their capacities to cope with unexpected financial shocks. Following an income shock, the poorest households (those without any significant wealth) are more likely to experience indebtedness and wealth loss. These households

also have the least stored reserves and thus are less likely to be resilient after a loss. This is one example of how a system of resources (wealth ownership) affects households more than an individual proclivity for overspending.

Furthermore, the findings from this research question a persistent assumption about poor Americans. From Reagan's famous "welfare queens," to recent diatribes about Black Americans overspending on tennis shoes, there remains an enduring notion that Americans remain in poverty through their own irresponsible actions. In this project, there was no evidence to show that poverty or race was connected to relatively higher recreational spending. Yet both of these factors were shown to have seriously deleterious effects on a household's long-term financial well-being. Chiefly, this indicates that we need to revise our assumptions regarding the causes of reduced wealth.

Speaking to more specific policy goals, our findings give us a perspective on how various conditions impact wealth accumulation. This perspective should inform our priorities in assigning governmental aid. For instance, it seems households without significant assets are most harmfully affected by losing a job. Based on this evidence, our financial assistance might be recalibrated to further assist those households who are jobless, and who have the least resources on which to fall back.

Furthermore, the findings from this work question popular inclinations to increase financial literacy. Certainly most households will benefit from better understanding the intricacies of personal finance. However, if the impulse is to teach households to save more by spending less on discretionary goods, we should question

this motive. Reduced recreational spending may be a means to improving financial well-being; but evidence from this project indicates that such reductions are likely to have a small impact on a household's financial situation, and that status spending is not a primary cause of wealth loss in the first place.

FUTURE WORK

The results of this research are just the first glance at a new frontier for sociology: investigations of household-level financial transactions, using the comprehensive data found in the *Consumer Expenditure Survey*. The CE holds tremendous promise for sociologists interested in topics connected to household spending and investing. Future studies should examine other facets of households' financial transactions.

For instance, the survey lends itself to studying questions about households' financial management. Using the CE's detailed expenditure data, one can examine how spending on any item is correlated with gains or losses in wealth (not just the status items examined in this study). Taking one approach, a researcher might examine the effectiveness of insurance for protecting wealth in the face of income shocks. Or, they might examine the comparative annual returns from different types of household investments. Obviously, the CE has many potential applications for researchers interested in policy, consumption behavior, and economic theory.

Additionally, if possible, future research on status spending would benefit greatly from studying households' finances for a longer time frame (even two or three years would be beneficial). One of the CE's main limitations is its annual time

window. Such a timeframe is suited to observing the immediate outcomes of various life situations. However, a more long-term panel of household finances would help show which factors have the most persistent effects. Also, by comparing several years' worth of data, it would be easier to identify those particular years where change in wealth is an outlier for the household.

CHAPTER 6: TECHNICAL APPENDIX

The first figure below (reproduced from Reinsdorf 2007) shows yearly percent change in net wealth for the American personal sector, along with the portion of that change which resulted from capital gains and losses. A capital change (i.e. a "capital gain" or "capital loss") is a change in net worth resulting from an increase or decrease in the value of a market-based investment. As is evident, capital gains and losses are – *by far* – the substantial drivers of change in aggregate net wealth. Saving out of income only accounts for the small difference observed between total change in net wealth and capital changes.

Moreover, the second chart (reproduced from Marquis 2002) shows the strong relationship between changes in aggregate financial wealth and the personal savings rate. This relationship suggests that capital changes have considerable influence on saving decisions. Evidently, some American households are not observing the accounting distinction between "stocks" and "flows" when they plan their budget.[20]

Of course, these charts are based on aggregates, and they over-represent the actions of a limited number of U.S. households that hold large stocks of wealth. However, even based on aggregate statistics, the directness of the connection between

the savings rate and capital changes should give us considerable pause. We need to examine capital changes alongside saving when we are considering why households make various financial decisions. In this case, doing so shows us a very good reason why a seeming mystery (the declining savings rate) might not be mysterious at all.

"Capital gains and losses are generally a much more important source of change in personal wealth than saving out of current income (chart 7)."

(Reinsdorf 2007)

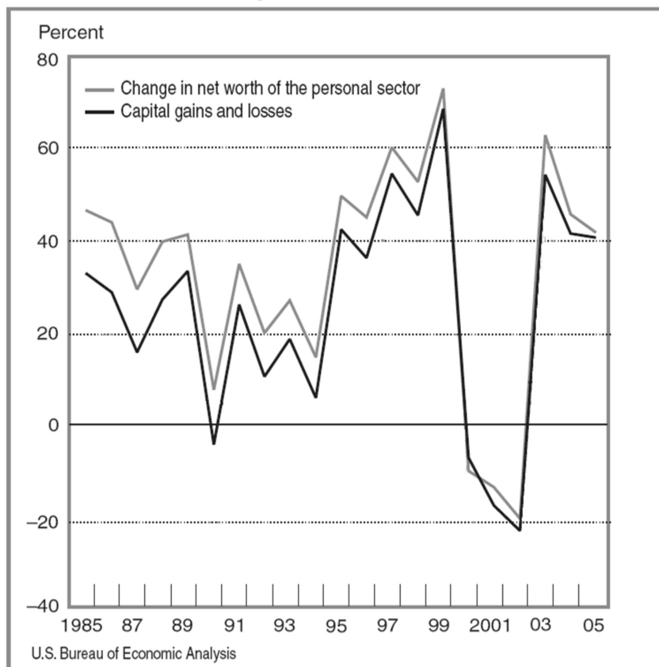

Figure 6.1 Measures of Wealth Accumulation as a Percent of Disposable Personal Income

"The steep rise in the financial wealth of households beginning in the mid-1990s — which was principally due to the soaring stock market — is almost a mirror image of the falloff in the personal saving rate. Some argue that capital gains should be added to personal income, thus raising household savings and increasing the measured saving rate (see Gale and Sabelhaus 1999)."

(Marquis 2002)

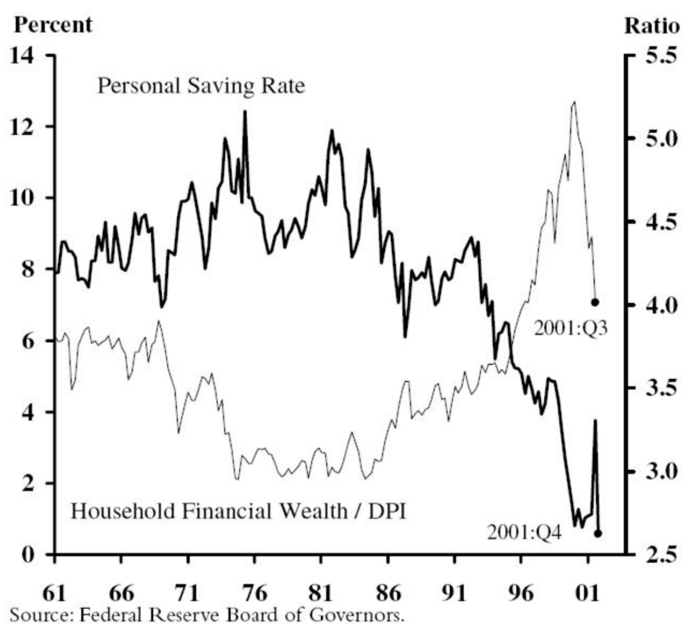

Figure 6.2 NIPA Personal Savings Rates and Household Financial Wealth/DPI

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ENDNOTES

[1] There is evidence that plenty of Americans agreed with Santelli's view. In fact, something Santelli said during the broadcast would soon take on much greater significance than he ever expected: "We're thinking of having a Chicago Tea Party in July. All you capitalists that want to show up to Lake Michigan, I'm gonna start organizing." This one-off comment about a "tea party" would ultimately catalyze a national movement under the "Tea Party" banner. Within a week of Santelli's rant, numerous small protests were conducted around the country, including the one Santelli mockingly called for in Chicago. By September 12th, over a million protestors would coalesce at a Tea Party rally hosted by conservative commentator Glenn Beck, called the "9.12 Rally." On the website for the 9.12 Rally, the following was listed as one of the movement's core beliefs: "I work hard for what I have and I will share it with who I want to. Government cannot force me to be charitable." (Beck 2009)

[2] A similar situation is described by Slesnick when disussing consumption as an indicator of welfare. For this purpose, the cost of a durable good is better envisioned if it is divided across the entire lifespan of the good (not just the repayment period of a loan). As mentioned in Slesnick, p. 43: "The spending on owner-occupied housing and consumer durables does not accurately reflect the level of consumption of these goods for many households. An elderly woman who lives in her own home and pays insurance and property taxes, but makes no mortgage payments, has expenditures that understate the housing services received. Also, using expenditures to measure durables consumption erroneously indicates high levels when a purchase is made and no consumption at other times. Services are actually received over the good's lifetime, and this feature should be incorporated in the consumption estimate."

[3] According to Google's Ngram viewer, which surveys a massive collection of over 5 million English-language books, around 1995 references to the bigram "Pierre Bourdieu" overtook references to such other prominent theorists as "Clifford Geertz" and even "Emile Durkheim".

[4] Of course in Bourdieu's writings, he ultimately grounds this apparent freedom of choice in the "habitus", which is a set of dispositions that is almost completely determined by social-structural factors. However, when it comes to consumption research in cultural sociology, I would argue that the dominant trend has been to leave off this deterministic bit (with some noticeable exceptions).

[5] More precisely, this is the earliest use of the term in its modern economic sense. There is a much older sense roughly meaning "To exhaust the strength or endurance of." In this older sense, one might speak of a person who "overspends" all their energy on running a marathon race.

[6] "It is in large part because the marginal disutility of loss is so great at the higher levels of betting that to engage in such betting is to lay one's public self, allusively and metaphorically, through the medium of one's cock, on the line. And though to a Benthamite this might seem merely to increase the irrationality of the enterprise that much further, to the Balinese what it mainly increases is the meaningfulness of it all."

[7] "Fighting cocks, almost every Balinese I have ever discussed the subject with has said, is like playing with fire only not getting burned. You activate village and kingroup rivalries and hostilities, but in 'play' form, coming dangerously and entrancingly close to the expression of open and direct interpersonal and intergroup aggression (something which, again, almost never happens in the normal course of ordinary life), but not quite, because, after all, it is 'only a cockfight.'"

[8] cf. the problem of "authenticity" and "originality" in the production of music, where artists must struggle to be authentic to a certain style of music, but simultaneously original within the context of that style (Peterson 1997)

[9] While the data are collected on a rotating basis, the estimates from the survey are only released yearly.

[10] Bureau of Labor Statistics. 2005. "2005 CONSUMER EXPENDITURE INTERVIEW SURVEY PUBLIC USE MICRODATA DOCUMENTATION." edited by U. S. D. o. Labor.

[11] The exception is when the spouse of a reference person is eligible for social security. It should be remembered that the designation of "mid-aged" for this project is based on the *reference person's* reported age. Hence, some households may be classified as mid-aged based on the age of the reference person, even though their spouse is older than this age category. Practically, this exception occurs to a very limited extent (.15% of all cases).

[12] The logic here may be a bit hard to follow. However, assuming most of the difference between spending and SSI will end up in households' savings accounts, we will consequently see a gain over the year if they spend less than they are paid by social security. At the least, if a household spends all of their SSI, then we will see zero change in wealth (but never negative changes).

[13] Data from 2007 are used because this is the SCF release year which is closest to the mid-point of the combined years of CE data.

[14] While the main effect of the purchase will be net neutral; households will very likely lose some wealth during a major asset purchase because of transactions costs (e.g. broker fees, licenses, taxes, inspections, etc.).

[15] *Technically*, the CE does include questions regarding the original purchase price of a property, as well as the reference person's assessment of the property's current market value. However, neither question has a good response rate; and the latter question is open to the most egregious misestimations. There are plenty of reasons to suspect that households are not good at estimating the likely market value of their property, as much evidence suggests.

[16] To make this a little clearer, let us say she sold the house for $140,000. This means that the market value of that asset is set at $140,000. Assuming she had no other mortgage on the house before the one she took for renovation, then she has somewhere around $50,000 in debt. When she sells the house we will see her lose ownership of an asset whose market value was $140,000; and that she took the cash from this sale and paid off her $50,000 mortgage; and that the remaining $90,000 went into her bank account. So, that's a negative change of $140,000; and a positive change of $90,000 in her savings, plus a positive change in $50,000 on her mortgage principle. In the balance, she apparently gained nothing

[17] Kurtosis of the unadjusted change in net wealth is 3,510.41, indicating extreme concentration of values in a peak around the mean. This reflects the large range of wealth changes, and also the general predominance of smaller gains and losses. The kurtosis of the cube-root adjusted sample is .806, and the kurtosis of the log-linear adjusted sample is 1.56, both of which are far more reasonable approximations of the normal curve.

[18] A few variables exhibited large outliers, due to the author's use of confidential data at the BLS. BLS internal data is not suppressed with top-coding; hence certain large values exist on the independent variables. Tests indicated that these extreme cases did not significantly bias the interpretation of results. Descriptive tables for means and standard deviations of all variables are available upon request.

[19] As Benjamin Franklin once wrote: “Remember that CREDIT is Money. If a Man lets his Money lie in my Hands after it is due, he gives me the Interest, or so much as I can make of it during that Time. This amounts to a considerable Sum where a Man has good and large Credit” (Franklin 1748)

[20] On a side note, it’s questionable whether they ever have. Cf. a New York Times article from 1929 warning that American consumers were treating stock market gains as a form of household income. (NYT 1929)